

NORTH ORANGE COUNTY COMMUNITY COLLEGE DISTRICT

Audit Report

ENROLLMENT FEE COLLECTION AND WAIVERS PROGRAM

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

July 1, 1998, through June 30, 2011



JOHN CHIANG
California State Controller

August 2013



JOHN CHIANG
California State Controller

August 6, 2013

Donna Miller, President
Board of Trustees
North Orange County Community College District
1830 West Romneya Drive
Anaheim, CA 92801

Dear Ms. Miller:

The State Controller's Office audited the costs claimed by the North Orange County Community College District for the legislatively mandated Enrollment Fee Collection and Waivers Program (Education Code section 76300 and *California Code of Regulations*, Title 5, sections 58501-58503, 58611-58613, 58620, and 5863) for the period of July 1, 1998, through June 30, 2011.

The district claimed \$15,955,585 for the mandated program. Our audit found that the entire amount is unallowable, because the district claimed estimated costs that were not supported by source documentation, claimed ineligible time, claimed unallowable indirect costs, overstated student enrollment numbers, understated the number of BOGG fee waivers, misstated indirect cost rates, overstated employee productive hourly rates, and misstated offsetting reimbursements. The State paid the district \$605,832, which the State will offset from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). 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 CSM's website at www.csm.ca.gov/docs/IRCFORM.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Ned Doffoney, Ph.D., Chancellor
Chancellor's Office
North Orange County Community College District
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North Orange County Community College District
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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	3
Views of Responsible Official	3
Restricted Use	4
Schedule 1—Summary of Program Costs	5
Findings and Recommendations	15
Attachment—District’s Response to Draft Audit Report	

Audit Report

Summary

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

The district claimed \$15,955,585 for the mandated program. Our audit found that the entire amount is unallowable, because the district claimed estimated costs that were not supported by source documentation, claimed ineligible time, claimed unallowable indirect costs, overstated student enrollment numbers, understated the number of BOGG fee waivers, misstated indirect cost rates, overstated employee productive hourly rates, and misstated offsetting reimbursements. The State paid the district \$605,832, which the State will offset from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

Background

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

The sections were added and/or amended by:

- Chapter 1, Statutes of 1984;
- Chapter 274 and 1401, Statutes of 1984;
- Chapter 920 and 1454, Statutes of 1985;
- Chapter 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;
- Chapter 8, 66, 67, and 1124, Statutes of 1993;
- Chapter 153 and 422, Statutes of 1994;
- Chapter 308, Statutes of 1995;
- Chapter 63, Statutes of 1996; and
- Chapter 72, Statutes of 1999.

On April 24, 2003, the Commission on State Mandates (CSM) adopted the Statement of Decision for the Enrollment Fee Collection and Waivers Program. The CSM 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 CSM 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 BOG fee waivers.
- Reporting to the Community Colleges Chancellor the number of and amounts provided for Board of Governors 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 reimbursement criteria. The CSM adopted the parameters and guidelines on January 26, 2006. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, 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.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the 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.

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 North Orange County Community College District claimed \$15,955,585 for costs of the Enrollment Fee Collection and Waivers Program. Our audit found that the entire amount is unallowable.

For the FY 1998-99 claim, the State paid the district \$88,969. Our audit found that the costs claimed are unallowable. The State will offset \$88,969 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 the costs claimed are unallowable.

For the FY 2008-2009 claim, the State paid the district \$276,529. Our audit found that all costs claimed are unallowable. The State will offset \$276,529 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2009-10 claim, the State paid the district \$240,334. Our audit found that all costs claimed are unallowable. The State will offset \$240,334 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

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

Views of Responsible Official

We issued a draft audit report on July 12, 2013. Fred Williams, Vice Chancellor, Finance and Facilities, responded by letter dated July 23, 2013 (Attachment), disagreeing with the audit results for findings 1, 3, 4, and 6. This audit report includes the district's response.

Restricted Use

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

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 6, 2013

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

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1998, through June 30, 1999</u>				
<i>Enrollment fee collection:</i>				
Direct costs-salaries and benefits:				
Calculating and collecting enrollment fees	\$ 600,735	\$ 44,672	\$ (556,063)	Finding 1
Total direct costs	600,735	44,672	(556,063)	
Indirect costs	228,279	14,310	(213,969)	Finding 4
Total direct and indirect costs	829,014	58,982	(770,032)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(42,803)	(104,798)	(61,995)	Finding 5
Adjustment for unused portion of offsets ²	—	45,816	45,816	Finding 5
Total program costs	<u>\$ 786,211</u>	—	<u>\$ (786,211)</u>	
Less amount paid by the State		(88,969)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (88,969)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
<i>Enrollment fee collection:</i>				
Direct costs-salaries and benefits:				
Calculating and collecting enrollment fees	\$ 655,980	\$ 50,980	\$ (605,000)	Finding 1
Total direct costs	655,980	50,980	(605,000)	
Indirect costs	249,272	16,329	(232,943)	Finding 4
Total direct and indirect costs	905,252	67,309	(837,943)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(42,290)	(98,797)	(56,507)	Finding 5
Adjustment for unused portion of offsets ²	—	31,488	31,488	Finding 5
Total enrollment fee collection	<u>862,962</u>	—	<u>(862,962)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	251	251	—	
Adopt procedures, record and maintain records	—	529	529	Finding 2
Waiving student fees	120,363	5,025	(115,338)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	2,261	2,261	—	
Total direct costs	122,875	8,066	(114,809)	
Indirect costs	46,693	2,584	(44,109)	Finding 4
Total direct and indirect costs	169,568	10,650	(158,918)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(122,875)	(167,427)	(44,552)	Finding 5
Adjustment for unused portion of offsets ²	—	156,777	156,777	Finding 5
Total enrollment fee waivers	<u>46,693</u>	—	<u>(46,693)</u>	
Total program costs	<u>\$ 909,655</u>	—	<u>\$ (909,655)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2000, through June 30, 2001</u>				
<i>Enrollment fee collection:</i>				
Direct costs-salaries and benefits				
Calculating and collecting enrollment fees	\$ 770,019	\$ 54,328	\$ (715,691)	Finding 1
Total direct costs	770,019	54,328	(715,691)	
Indirect costs	292,607	17,393	(275,214)	Finding 4
Total direct and indirect costs	1,062,626	71,721	(990,905)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(45,177)	(101,151)	(55,974)	Finding 5
Adjustment for unused portion of offsets ²	—	29,430	29,430	Finding 5
Total enrollment fee collection	1,017,449	—	(1,017,449)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	253	253	—	
Adopt procedures, record and maintain records	—	573	573	Finding 2
Waiving student fees	150,225	5,715	(144,510)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	2,279	2,279	—	
Total direct costs	152,757	8,820	(143,937)	
Indirect costs	58,047	2,824	(55,223)	Finding 4
Total direct and indirect costs	210,804	11,644	(199,160)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(152,757)	(195,660)	(42,903)	Finding 5
Adjustment for unused portion of offsets ²	—	184,016	184,016	Finding 5
Total enrollment fee waivers	58,047	—	(58,047)	
Total program costs	<u>\$ 1,075,496</u>	—	<u>\$ (1,075,496)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2001, through June 30, 2002</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 156	\$ 156	\$ —	
Staff training	2,911	2,911	—	
Calculating and collecting enrollment fees	752,829	63,138	(689,691)	Finding 1
Total direct costs	755,896	66,205	(689,691)	
Indirect costs	287,240	21,188	(266,052)	Finding 4
Total direct and indirect costs	1,043,136	87,393	(955,743)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(37,750)	(101,363)	(63,613)	Finding 5
Adjustment for unused portion of offsets ²	—	13,970	13,970	Finding 5
Total enrollment fee collection	1,005,386	—	(1,005,386)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs-salaries and benefits				
Staff training	277	277	—	
Adopt procedures, record and maintain records	—	607	607	Finding 2
Waiving student fees	285,123	6,908	(278,215)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	2,497	2,497	—	
Total direct costs	287,897	10,289	(277,608)	
Indirect costs	109,402	3,293	(106,109)	Finding 4
Total direct and indirect costs	397,299	13,582	(383,717)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(224,630)	(188,560)	36,070	Finding 5
Adjustment for unused portion of offsets ²	—	174,978	174,978	Finding 5
Total enrollment fee waivers	172,669	—	(172,669)	
Total program costs	<u>\$ 1,178,055</u>	—	<u>\$ (1,178,055)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2002, through June 30, 2003</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 53	\$ 53	\$ —	
Staff training	2,968	2,968	—	
Calculating and collecting enrollment fees	731,882	63,408	(668,474)	Finding 1
Total direct costs	734,903	66,429	(668,474)	
Indirect costs	286,613	20,814	(265,799)	Finding 4
Total direct and indirect costs	1,021,516	87,243	(934,273)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(61,633)	(103,807)	(42,174)	Finding 5
Adjustment for unused portion of offsets ²	—	16,564	16,564	Finding 5
Total enrollment fee collection	959,883	—	(959,883)	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	317	317	—	
Adopt procedures, record and maintain records	—	657	657	Finding 2
Waiving student fees	267,027	13,463	(253,564)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	2,853	2,853	—	
Total direct costs	270,197	17,290	(252,907)	
Indirect costs	105,375	5,417	(99,958)	Finding 4
Total direct and indirect costs	375,572	22,707	(352,865)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003 (continued)</u>				
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(239,124)	(233,423)	5,701	Finding 5
Adjustment for unused portion of offsets ²	—	210,716	210,716	Finding 5
Total enrollment fee waivers	<u>136,448</u>	<u>—</u>	<u>(136,448)</u>	
Total program costs	<u>\$ 1,096,331</u>	<u>—</u>	<u>\$ (1,096,331)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2003, through June 30, 2004</u>				
<i>Enrollment fee collection:</i>				
Direct costs-salaries and benefits				
Prepare policies and procedures	\$ 55	\$ 55	\$ —	
Staff training	3,051	3,051	—	
Calculating and collecting enrollment fees	677,052	52,638	(624,414)	Finding 1
Total direct costs	680,158	55,744	(624,414)	
Indirect costs	265,261	15,790	(249,471)	Finding 4
Total direct and indirect costs	945,419	71,534	(873,885)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(66,553)	(146,275)	(79,722)	Finding 5
Adjustment for unused portion of offsets ²	—	74,741	74,741	Finding 5
Total enrollment fee collection	<u>878,866</u>	<u>—</u>	<u>(878,866)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	306	306	—	
Adopt procedures, record and maintain records	—	710	710	Finding 2
Waiving student fees	326,672	14,826	(311,846)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	2,758	2,758	—	
Total direct costs	329,736	18,600	(311,136)	
Indirect costs	128,597	5,269	(123,328)	Finding 4
Total direct and indirect costs	458,333	23,869	(434,464)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(266,303)	(235,375)	30,928	Finding 5
Adjustment for unused portion of offsets ²	—	211,506	211,506	Finding 5
Total enrollment fee waivers	<u>192,030</u>	<u>—</u>	<u>(192,030)</u>	
Total program costs	<u>\$ 1,070,896</u>	<u>—</u>	<u>\$ (1,070,896)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 57	\$ 57	\$ —	
Staff training	3,186	3,186	—	
Calculating and collecting enrollment fees	<u>685,308</u>	<u>51,212</u>	<u>(634,096)</u>	Finding 1
Total direct costs	688,551	54,455	(634,096)	
Indirect costs	<u>268,535</u>	<u>15,344</u>	<u>(253,191)</u>	Finding 4
Total direct and indirect costs	957,086	69,799	(887,287)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(115,845)	(208,301)	(92,456)	Finding 5
Adjustment for unused portion of offsets ²	—	138,502	138,502	Finding 5
Total enrollment fee collection	<u>841,241</u>	<u>—</u>	<u>(841,241)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs - salaries and benefits				
Staff training	333	333	—	
Adopt procedures, record and maintain records	—	739	739	Finding 2
Waiving student fees	331,117	18,250	(312,867)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	<u>2,997</u>	<u>2,997</u>	<u>—</u>	
Total direct costs	334,447	22,319	(312,128)	
Indirect costs	<u>130,435</u>	<u>6,289</u>	<u>(124,146)</u>	Finding 4
Total direct and indirect costs	464,882	28,608	(436,274)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(334,447)	(320,728)	13,719	Finding 5
Adjustment for unused portion of offsets ²	—	292,120	292,120	Finding 5
Total enrollment fee waivers	<u>130,435</u>	<u>—</u>	<u>(130,435)</u>	
Total program costs	<u>\$ 971,676</u>	<u>—</u>	<u>\$ (971,676)</u>	
Less amount paid by the State		<u>—</u>		
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	\$ 67	\$ 67	\$ —	
Staff training	4,048	4,048	—	
Calculating and collecting enrollment fees	<u>826,195</u>	<u>62,854</u>	<u>(763,341)</u>	Finding 1
Total direct costs	830,310	66,969	(763,341)	
Indirect costs	<u>323,821</u>	<u>18,878</u>	<u>(304,943)</u>	Finding 4
Total direct and indirect costs	1,154,131	85,847	(1,068,284)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(118,851)	(211,464)	(92,613)	Finding 5
Adjustment for unused portion of offsets ²	—	125,617	125,617	Finding 5
Total enrollment fee collection	<u>1,035,280</u>	<u>—</u>	<u>(1,035,280)</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs-salaries and benefits				
Staff training	380	380	—	
Adopt procedures, record and maintain records	—	748	748	Finding 2
Waiving student fees	466,102	23,385	(442,717)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	3,416	3,416	—	
Total direct costs	469,898	27,929	(441,969)	
Indirect costs	183,260	7,873	(175,387)	Finding 4
Total direct and indirect costs	653,158	35,802	(617,356)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(341,804)	(302,933)	38,871	Finding 5
Adjustment for unused portion of offsets ²	—	267,131	267,131	Finding 5
Total enrollment fee waivers	311,354	—	(311,354)	
Total program costs	<u>\$ 1,346,634</u>	—	<u>\$ (1,346,634)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2006, through June 30, 2007</u>				
<i>Enrollment fee collection:</i>				
Direct costs-salaries and benefits				
Prepare policies and procedures	\$ 72	\$ 72	\$ —	
Staff training	4,313	4,313	—	
Calculating and collecting enrollment fees	938,842	74,248	(864,594)	Finding 1
Total direct costs	943,227	78,633	(864,594)	
Indirect costs	278,251	23,197	(255,054)	Finding 4
Total direct and indirect costs	1,221,478	101,830	(1,119,648)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(133,267)	(196,898)	(63,631)	Finding 5
Adjustment for unused portion of offsets ²	—	95,068	95,068	Finding 5
Total enrollment fee collection	1,088,211	—	(1,088,211)	
<i>Enrollment fee waivers:</i>				
Direct costs-salaries and benefits				
Staff training	389	389	—	
Adopt procedures, record and maintain records	—	808	808	Finding 2
Waiving student fees	279,745	24,409	(255,336)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	3,497	3,497	—	
Total direct costs	283,631	29,103	(254,528)	
Indirect costs	83,672	8,585	(75,087)	Finding 4
Total direct and indirect costs	367,303	37,688	(329,615)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007 (continued)</u>				
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(283,631)	(331,893)	(48,262)	Finding 5
Adjustment for unused portion of offsets ²	—	294,205	294,205	Finding 5
Total enrollment fee waivers	<u>83,672</u>	<u>—</u>	<u>(83,672)</u>	
Total program costs	<u>\$ 1,171,883</u>	<u>—</u>	<u>\$ (1,171,883)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2007, through June 30, 2008</u>				
<i>Enrollment fee collection:</i>				
Direct costs - salaries and benefits				
Prepare policies and procedures	\$ 75	\$ 75	\$ —	
Staff training	4,526	4,526	—	
Calculating and collecting enrollment fees	1,366,670	87,311	(1,279,359)	Finding 1
Total direct costs	<u>1,371,271</u>	<u>91,912</u>	<u>(1,279,359)</u>	
Indirect costs	404,525	27,114	(377,411)	Finding 4
Total direct and indirect costs	<u>1,775,796</u>	<u>119,026</u>	<u>(1,656,770)</u>	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(102,049)	(179,722)	(77,673)	Finding 5
Adjustment for unused portion of offsets ²	—	60,696	60,696	Finding 5
Total enrollment fee collection	<u>1,673,747</u>	<u>—</u>	<u>(1,673,747)</u>	
<i>Enrollment fee waivers:</i>				
Direct costs-salaries and benefits				
Staff training	460	460	—	
Adopt procedures, record and maintain records	—	883	883	Finding 2
Waiving student fees	911,514	28,677	(882,837)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	4,139	4,139	—	
Total direct costs	<u>916,113</u>	<u>34,159</u>	<u>(881,954)</u>	
Indirect costs	270,254	10,077	(260,177)	Finding 4
Total direct and indirect costs	<u>1,186,367</u>	<u>44,236</u>	<u>(1,142,131)</u>	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(335,172)	(307,226)	27,946	Finding 5
Adjustment for unused portion of offsets ²	—	262,990	262,990	Finding 5
Total enrollment fee waivers	<u>851,195</u>	<u>—</u>	<u>(851,195)</u>	
Total program costs	<u>\$ 2,524,942</u>	<u>—</u>	<u>\$ (2,524,942)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
<i>Enrollment fee collection:</i>				
Direct costs-salaries and benefits				
Prepare policies and procedures	\$ 72	\$ 72	\$ —	
Staff training	4,302	4,302	—	
Calculating and collecting enrollment fees	991,435	88,864	(902,571)	Finding 1
Total direct costs	995,809	93,238	(902,571)	
Indirect costs	368,848	35,421	(333,427)	Finding 4
Total direct and indirect costs	1,364,657	128,659	(1,235,998)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(97,611)	(183,181)	(85,570)	Finding 5
Adjustment for unused portion of offsets ²	—	54,522	54,522	Finding 5
Total enrollment fee collection	1,267,046	—	(1,267,046)	
<i>Enrollment fee waivers:</i>				
Direct costs-salaries and benefits				
Staff training	468	468	—	
Adopt procedures, record and maintain records	—	824	824	Finding 2
Waiving student fees	578,134	28,125	(550,009)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	4,208	4,208	—	
Total direct costs	582,810	33,625	(549,185)	
Indirect costs	215,872	12,774	(203,098)	Finding 4
Total direct and indirect costs	798,682	46,399	(752,283)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(269,459)	(293,765)	(24,306)	Finding 5
Adjustment for unused portion of offsets ²	—	247,366	247,366	Finding 5
Total enrollment fee waivers	529,223	—	(529,223)	
Total program costs	<u>\$ 1,796,269</u>	—	<u>\$ (1,796,269)</u>	
Less amount paid by the State		(276,529)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (276,529)</u>		
<u>July 1, 2009, through June 30, 2010</u>				
<i>Enrollment fee collection:</i>				
Direct costs-salaries and benefits				
Calculating and collecting enrollment fees	\$ 830,259	\$ 86,050	\$ (744,209)	Finding 1
Total direct costs	830,259	86,050	(744,209)	
Indirect costs	324,465	33,112	(291,353)	Finding 4
Total direct and indirect costs	1,154,724	119,162	(1,035,562)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(107,861)	(213,415)	(105,554)	Finding 5
Adjustment for unused portion of offsets ²	—	94,253	94,253	Finding 5
Total enrollment fee collection	1,046,863	—	(1,046,863)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010 (continued)</u>				
<i>Enrollment fee waivers:</i>				
Direct costs-salaries and benefits				
Adopt procedures, record and maintain records	—	663	663	Finding 2
Waiving student fees	211,032	31,120	(179,912)	Finding 3
Total direct costs	211,032	31,783	(179,249)	
Indirect costs	82,472	12,230	(70,242)	Finding 4
Total direct and indirect costs	293,504	44,013	(249,491)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(211,032)	(328,651)	(117,619)	Finding 5
Adjustment for unused portion of offsets ²	—	284,638	284,638	Finding 5
Total enrollment fee waivers	82,472	—	(82,472)	
Total program costs	<u>\$ 1,129,335</u>	—	<u>\$ (1,129,335)</u>	
Less amount paid by the State		(240,334)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (240,334)</u>		
<u>July 1, 2010, through June 30, 2011</u>				
<i>Enrollment fee collection:</i>				
Direct costs-salaries and benefits				
Prepare policies and procedures	\$ 955	\$ 955	\$ —	
Staff training	297	297	—	
Calculating and collecting enrollment fees	733,548	93,675	(639,873)	Finding 1
Total direct costs	734,800	94,927	(639,873)	
Indirect costs	297,447	39,518	(257,929)	Finding 4
Total direct and indirect costs	1,032,247	134,445	(897,802)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(181,239)	(181,239)	—	Finding 5
Adjustment for unused portion of offsets ²	—	46,794	46,794	Finding 5
Total enrollment fee collection	851,008	—	(851,008)	
<i>Enrollment fee waivers:</i>				
Direct costs-salaries and benefits				
Prepare policies and procedures	\$ 691	\$ 691	\$ —	
Staff training	297	297	—	
Adopt procedures, record and maintain records	18,125	850	(17,275)	Finding 2
Waiving student fees	358,936	36,725	(322,211)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	691	691	—	
Total direct costs	378,740	39,254	(339,486)	
Indirect costs	153,314	16,341	(136,973)	Finding 4
Total direct and indirect costs	532,054	55,595	(476,459)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(484,860)	(366,771)	118,089	Finding 5
Adjustment for unused portion of offsets ²	—	311,176	311,176	Finding 5
Total enrollment fee waivers	47,194	—	(47,194)	
Total program costs	<u>\$ 898,202</u>	—	<u>\$ (898,202)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 1998, through June 30, 2011</u>				
<i>Enrollment fee collection:</i>				
Direct costs-salaries and benefits				
Prepare policies and procedures	\$ 1,562	\$ 1,562	\$ —	
Staff training	29,602	29,602	—	
Calculating and collecting enrollment fees	10,560,754	873,378	(9,687,376)	Finding 1
Total direct costs	10,591,918	904,542	(9,687,376)	
Indirect costs	3,875,164	298,408	(3,576,756)	Finding 4
Total direct and indirect costs	14,467,082	1,202,950	(13,264,132)	
Less offsetting savings and reimbursements:				
Enrollment fee collection	(1,152,929)	(2,030,411)	(877,482)	Finding 5
Adjustment for unused portion of offsets ²	—	827,461	827,461	Finding 5
Total enrollment fee collection	13,314,153	—	(13,314,153)	
<i>Enrollment fee waivers:</i>				
Direct costs-salaries and benefits				
Prepare policies and procedures	691	691	—	
Staff training	3,731	3,731	—	
Adopt procedures, record and maintain records	18,125	8,591	(9,534)	Finding 2
Waiving student fees	4,285,990	236,628	(4,049,362)	Finding 3
Reporting BOGG fee waiver data to CCCCCO	31,596	31,596	—	
Total direct costs	4,340,133	281,237	(4,058,896)	
Indirect costs	1,567,393	93,556	(1,473,837)	Finding 4
Total direct and indirect costs	5,907,526	374,793	(5,532,733)	
Less offsetting savings and reimbursements:				
Enrollment fee waivers	(3,266,094)	(3,272,412)	(6,318)	Finding 5
Adjustment for unused portion of offsets ²	—	2,897,619	2,897,619	Finding 5
Total enrollment fee waivers	2,641,432	—	(2,641,432)	
Total program costs	<u>\$15,955,585</u>	—	<u>\$(15,955,585)</u>	
Less amount paid by the State		(605,832)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (605,832)</u>		

¹ See the Findings and Recommendations section.

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

Findings and Recommendations

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

The district claimed \$10,560,754 in salaries and benefits for the Calculating and Collecting Enrollment Fees cost component during the audit period. We determined that \$873,378 is allowable and \$9,687,376 is unallowable. The costs are unallowable because the district estimated the amount of time required to perform the reimbursable activities. In addition, we noted variations in the number of students used in the district’s calculations based on 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. We also made adjustments to the average productive hourly rates used in the district’s claims.

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

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1998-99	\$ 600,735	\$ 44,672	\$ (556,063)
1999-00	655,980	50,980	(605,000)
2000-01	770,018	54,328	(715,690)
2001-02	752,829	63,138	(689,691)
2002-03	731,883	63,408	(668,475)
2003-04	677,052	52,638	(624,414)
2004-05	685,308	51,212	(634,096)
2005-06	826,195	62,854	(763,341)
2006-07	938,842	74,248	(864,594)
2007-08	1,366,670	87,311	(1,279,359)
2008-09	991,435	88,864	(902,571)
2009-10	830,259	86,050	(744,209)
2010-11	733,548	93,675	(639,873)
Total, salaries and benefits	<u>\$ 10,560,754</u>	<u>\$ 873,378</u>	<u>\$ (9,687,376)</u>

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

- i. Referencing student accounts and records to determine course workload, status of payments, and eligibility for fee waiver. Printing a list of enrolled courses. **(Activity 1)**

- ii. Calculating the total enrollment fee to be collected. Identifying method of payment. Collecting cash and making change as necessary. Processing credit card and other non-cash payment transactions (however, any fees that may be charged to a community college district by a credit card company or bank are not reimbursable). Preparing a receipt for a payment received. **(Activity 2)**
- iii. Answering student's questions regarding enrollment fee collection or referring them to the appropriate person for an answer. **(Activity 3)**
- iv. Updating written and computer records for the enrollment fee information and providing a copy to the student. Copying and filing enrollment fee documentation. **(Activity 4)**
- v. Collecting delinquent enrollment fees, including written or telephonic collection notices to students, turning accounts over to collection agencies, or small claims court action. **(Activity 5)**
- vi. For students who establish fee waiver eligibility after the enrollment fee has been collected, providing a refund or enrollment fees paid and updating student and district records as required. (Refund process for change in program is not reimbursable). **(Activity 6)**

The program's 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.”

Salaries and Benefits

For fiscal year (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. 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. The district did not provide any source documentation based on actual data to support the estimated time allowances.

The following table summarizes the minutes claimed for reimbursable activities 1 through 6:

Reimbursable Activity	Claimed						
	FY 1998 Through FY 2000-01	FY2001-02 Through FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
	1 Referencing Students Accounts	5.40	5.40	6.40	6.10	5.40	4.40
2 Calculating the Fee	5.20	5.20	5.00	5.90	5.10	5.00	4.00
3 Answering Questions	5.80	5.80	5.10	8.00	5.80	5.00	4.20
4 Updating Records	5.70	5.70	4.80	7.90	4.80	3.80	3.40
	22.10	22.10	21.30	27.90	21.10	18.20	15.50
5 Collecting Delinquent Fees	-	5.50	6.10	6.10	7.10	7.80	6.90
6 Providing Refunds	-	5.40	4.40	6.40	4.90	4.70	4.10
	-	10.90	10.50	12.50	12.00	12.50	11.00
	22.10	33.00	31.80	40.40	33.10	30.70	26.50

As the mandated activities took place at the district during the audit period, we assessed whether or not the time estimates cited by district staff for FY 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 and in the Bursar's Office that collects enrollment fees from students and documented the average time increments spent by district staff to perform these activities based on our observations.

In applying the time allowances, the district did not report the correct number of students related to the various reimbursable activities. We recalculated reimbursable activities using the correct number of students (multiplier). We also made adjustments to the average productive hourly rates that were used in the district's claims. Based on this information, we determined that the district overstated salaries and benefits by \$9,687,376 for the audit period.

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 per student of 22.10 minutes for its FY 1998-99 through FY 2005-06 claims, 21.30 minutes for its FY 2006-07 claim, 27.90 minutes for its FY 2007-08 claim, 21.10 minutes for its FY 2008-09 claim, 18.20 minutes for its FY 2009-10 claim, and 15.50 minutes for its FY 2010-11 claim. Based on our observations, we determined 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 and in the Bursar's Office performing the reimbursable activities as well as other non-mandated activities. Over several days, we observed 178 payment transactions processed by district staff. Of these, 78 involved the payment of enrollment fees encompassing Activities 1 through 4 totaling 214.78 minutes. The average time to perform all four activities was 2.76 minutes or 0.69 minutes per activity. The Office Supervisors were encouraged to watch over the auditors while our observations were being documented. We documented the average time increments spent by district staff to perform the reimbursable activities based on our observations. We reviewed the observations as they took place with the Office Supervisors. The district's mandated cost consultant and district management staff advised the Office Supervisors and the college campus staff not to comment on any of our analysis results, determinations, or observations. In addition, the district's District Director advised us not to discuss our audit results with management or any other campus staff.

Multiplier Calculation

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, 3 and 4, the district used the number of total enrolled students as the multiplier. In determining student enrollment, the district used the "Student Total Headcount" summary report obtained from the CCCC's website for FY 1998-99 through FY 2008-09. 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 Activity 2, the district used the number of total enrolled students less the number of BOGG fee waivers granted. For Activity 4, the district used the number of total enrolled students without excluding the number of BOGG fee waivers granted from FY 1998-99 through FY 2008-09. The district used the number of total enrolled students less the number of BOGG fee waivers granted as the multiplier only from FY 2009-10 to FY 2010-11.

We updated the district's calculations of eligible students for Activities 1 and 3 based on the number of students enrolled as reported to the CCCC, less non-resident students and special admit students. The CCCC's management information system (MIS) identifies enrollment information based on student data that the district reported. The CCCC identifies the district's enrollment based on CCCC's MIS data element STD 7, codes A through G. The CCCC 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 CCCC. The CCCC 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 added the number of refunds claimed for students who paid their enrollment fees and were subsequently granted a BOGG fee waiver and deducted students who paid their enrollment through the district's online system.

The district provided a breakdown of the enrollment fees paid using the district's online system and in person from FY 2002-03 through FY 2010-11. Based on the information provided by the district, we determined the percentage of enrollment fees paid in person at the Admissions and Records Office and in the Bursar's Office by dividing the fees paid in person by the total fees paid. We applied the percentage we 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.

The district did not provide a breakdown of the enrollment fees paid in person, online, or via phone for FY 1998-99 to 2000-01, as the data was unavailable prior to the implementation of the district's Banner software system in FY 2001-02. However, the district stated and we agreed that 75% was a reasonable percentage of fees that may have been paid in person during those years, as this was the percentage that the district was able to support for FY 2001-02. We applied this percentage to net enrollment numbers (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 for FY 1998-99 through FY 2000-01.

Productive Hourly Rates

We also determined that the district overstated the average productive hourly rates used for Activity 1 through 6 in its claims for the audit period. The district's average productive hourly rates included staff that did not perform Activity 1 through 6 (staff employed in the Financial Aid Department) and excluded staff that did perform the reimbursable activities. We determined that the staff excluded was employees that did not receive a time survey form. In addition, the district did not weigh the average rates by employee classification. Instead, all employee classifications were weighted at the same level as if they performed the reimbursable activities to the same extent. As explained in Finding 6, we recalculated the average productive hourly rates based on employees actually involved in calculating and collecting enrollment fee activities and made minor changes to the claimed rates.

Activity 5—Collecting delinquent enrollment fees*Time Increments*

The district did not claim any costs for this activity in its claims for FY 1998-99 through FY 2000-01. 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 per student account of 5.5 minutes for FY 2001-02 through FY 2005-06, 6.10 minutes per student account for FY 2006-07 and FY 2007-08, 7.10 minutes per student account for FY 2008-09, 7.80 minutes per student account for FY 2009-10, and 6.90 minutes per student account for FY 2010-11 to collect delinquent enrollment fees in the Admissions and Records Office and in the Bursar's Office.

The district collects some of the delinquent fees at the Admissions and Records Office and in the Bursar's Office. However, district representatives stated that the majority of students' delinquent fee payments are handled through a batch process if the delinquent enrollment fees are over a year old. Prior to FY 2009-10 the district sent two letters to students informing them of their delinquent enrollment fees. Beginning in FY 2010-11, the district began sending only one notice to students. After notifying students, the district sends any remaining delinquent accounts to the CCCCCO, which refers the accounts to the Franchise Tax Board for collection.

We did not observe this activity being performed during our observations at the Admissions and Records Office and in the Bursar's Office. However, based on the procedures in place and the information gathered during our discussions with district representatives, the time claimed appears reasonable.

Multiplier Calculation

For Activity 5, the district provided, and we accepted, the number of delinquent student accounts processed during the audit period.

Productive Hourly Rates

Consistent with the information presented for Activities 1 through 4, the district also overstated the annual average productive hourly rates in its claims for the audit period for Activity 5. As explained in Finding 6, we recalculated the annual average productive hourly rates based on employees actually involved in calculating and collecting enrollment fee activities and made minor changes to the claimed rates.

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

Time Increments

The district did not claim any costs for this activity in its claims for FY 1998-99 through FY 2000-01. Using certification forms developed by the district's mandated cost consultant; district employees estimated the time required to perform reimbursable Activity 6 for years subsequent to FY 2001-02. Based on these certifications, the district developed time allowances per refund transaction of 5.4 minutes for FY 2001-02 through FY 2005-06, 4.4 minutes for FY 2006-07, 6.4 minutes for FY 2007-08, 4.9 minutes for FY 2008-09, 4.7 minutes for FY 2009-10, and 4.10 minutes for FY 2010-11.

To qualify for a refund, students must officially withdraw from a class by the refund deadlines established by the district. Refunds for enrollment fees paid are processed within three months after the semester begins. Cypress College does not process any refunds until after the first three weeks of the semester have passed. However, Fullerton College processes refunds on an ongoing basis for students who have paid their fees and then received a BOGG fee waiver during the first three weeks of the semester. Based on information provided by district staff, some refunds are processed faster than others. Each refund has to be analyzed before a refund check is sent to the student. Some accounts are verified quickly, while others may take longer depending on the fees already paid, dropped classes, and other fees due to the college. The process may also take longer when there are larger numbers of refunds to be processed at one time.

We did not observe this activity being performed during our observations at the Admissions and Records Office and in the Bursar's Office. Based on information obtained during our discussions with district staff, we determined that the time claimed for this component during the audit period appears reasonable.

Multiplier Calculation

For Activity 6, the district provided and we accepted the number of refunds processed for students who established fee waiver eligibility after paying their enrollment fees.

Productive Hourly Rates

Consistent with the information presented for Activities 1 through 4, the district also overstated the annual average productive hourly rates used in its claims for Activity 6 during the audit period. As explained in Finding 6, we recalculated the annual average productive hourly rates based on employees actually involved in calculating and collecting enrollment fee activities and made minor changes to the claimed rates.

Calculation of Time Increments Adjustment

The following table summarizes the minutes claimed and allowable for reimbursable Activities 1 through 6:

Reimbursable Activity	Claimed						
	FY 1998 Through FY 2000-01	FY2001-02 Through FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
	1 Referencing Students Accounts	5.40	5.40	6.40	6.10	5.40	4.40
2 Calculating the Fee	5.20	5.20	5.00	5.90	5.10	5.00	4.00
3 Answering Questions	5.80	5.80	5.10	8.00	5.80	5.00	4.20
4 Updating Records	5.70	5.70	4.80	7.90	4.80	3.80	3.40
	<u>22.10</u>	<u>22.10</u>	<u>21.30</u>	<u>27.90</u>	<u>21.10</u>	<u>18.20</u>	<u>15.50</u>
5 Collecting Delinquent Fees	-	5.50	6.10	6.10	7.10	7.80	6.90
6 Providing Refunds	-	5.40	4.40	6.40	4.90	4.70	4.10
	<u>-</u>	<u>10.90</u>	<u>10.50</u>	<u>12.50</u>	<u>12.00</u>	<u>12.50</u>	<u>11.00</u>
Total Claimed - Activities 1-6	<u>22.10</u>	<u>33.00</u>	<u>31.80</u>	<u>40.40</u>	<u>33.10</u>	<u>30.70</u>	<u>26.50</u>

Reimbursable Activity	Allowable						
	FY 1998 Through FY 2000-01	FY2001-02 Through FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
	1 Referencing Students Accounts	0.69	0.69	0.69	0.69	0.69	0.69
2 Calculating the Fee	0.69	0.69	0.69	0.69	0.69	0.69	0.69
3 Answering Questions	0.69	0.69	0.69	0.69	0.69	0.69	0.69
4 Updating Records	0.69	0.69	0.69	0.69	0.69	0.69	0.69
	<u>2.76</u>	<u>2.76</u>	<u>2.76</u>	<u>2.76</u>	<u>2.76</u>	<u>2.76</u>	<u>2.76</u>
5 Collecting Delinquent Fees	-	5.50	6.10	6.10	7.00	7.80	6.90
6 Providing Refunds	-	5.40	4.40	6.40	4.90	4.70	4.10
	<u>-</u>	<u>5.40</u>	<u>4.40</u>	<u>6.40</u>	<u>4.90</u>	<u>4.70</u>	<u>4.10</u>
Total Allowable - Activities 1-6	<u>2.76</u>	<u>13.66</u>	<u>13.26</u>	<u>15.26</u>	<u>14.66</u>	<u>15.26</u>	<u>13.76</u>
Audit adjustment - time increments	<u>(19.34)</u>	<u>(19.34)</u>	<u>(18.54)</u>	<u>(25.14)</u>	<u>(18.44)</u>	<u>(15.44)</u>	<u>(12.74)</u>

Calculation of Multiplier Adjustment

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

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
1	1,091,346	1,043,307	(48,039)
2	835,267	419,002	(416,265)
3	1,091,346	1,043,307	(48,039)
4	1,006,268	419,002	(587,266)
5	6,431	6,431	-
6	53,927	53,927	-
	<u>4,084,585</u>	<u>2,984,976</u>	<u>(1,099,609)</u>

Calculation of Hours Adjustments

We multiplied the allowable minutes per activity by the multiplier for the reimbursable activities (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 and allowable hours for the audit period:

Reimbursable Activity	Claimed Hours	Allowable Hours	Adjusted Hours
1	96,832.47	11,998.04	(84,834.43)
2	71,631.65	4,818.52	(66,813.13)
3	104,023.88	11,998.04	(92,025.84)
4	92,815.79	4,818.52	(87,997.27)
5	698.05	698.05	-
6	4,541.31	4,541.31	-
	<u>370,543.15</u>	<u>38,872.48</u>	<u>(331,670.67)</u>

Calculation of Costs by Reimbursable Activities

For Activities 1 and 3, we multiplied the allowable minutes by net student enrollment to determine the number of hours spent to perform the activities for FY 1998-99 through FY 2010-11. We then multiplied the hours spent times the audited average productive hourly rates to determine allowable costs for salaries and benefits. We determined net student enrollment by excluding non-residents and special part-time students from total student enrollment. The CCCCCO's management information system (MIS) identifies enrollment information based on student data that the district reported. The CCCCCO identifies the district's enrollment based on the CCCCCO's MIS data element STD 7, codes A through G. The CCCCCO eliminates any duplicate students based on their Social Security numbers. We also took into account the number of students who paid their enrollment fees using the district's on-line system or by telephone based on a report that was prepared for us by district staff.

For Activities 2 and 4, we multiplied the allowable minutes by the adjusted net student enrollment to determine the number of hours spent to perform the activities for FY 1998-99 through FY 2010-11. We then multiplied the hours spent times the audited productive hourly rates to determine allowable costs for salaries and benefits. To determine adjusted net student enrollment, we deducted from net student enrollment the number of students who were exempt from paying enrollment fees because they received a BOGG fee waiver. We obtained the number of students in the district who received BOGG fee waivers each year from the CCCCCO based on data the district reported. 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.

We applied the audited average productive hourly rates to the allowable hours per reimbursable activity. We determined that salaries and benefits totaling \$873,378 are allowable and \$9,687,376 is unallowable.

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

Reimbursable Activity	Salaries and Benefits Claimed	Salaries and Benefits Allowable	Audit Adjustment
1	\$ 2,788,628	\$ 271,911	\$ (2,516,717)
2	1,998,413	99,108	(1,899,305)
3	3,005,841	271,911	(2,733,930)
4	2,598,600	99,108	(2,499,492)
5	24,101	18,634	(5,467)
6	145,171	112,706	(32,465)
	<u>\$ 10,560,754</u>	<u>\$ 873,378</u>	<u>\$ (9,687,376)</u>

Recommendation

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 draft audit report states that the district claimed \$10,560,754 in salaries and benefits for the staff time to calculate and collect enrollment fees, of which \$873,378 is allowable and \$9,687,376 is unallowable. The costs are disallowed for several reasons because the audit:

- rejects the District calculation of the average staff time required to perform the 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);
- removes from the workload calculation the number of students who paid their enrollment fees online rather than in person: and,
- adjusts the average staff salary and benefit amounts used to calculate the productive hourly rates.

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. The total of the average times for the six activities ranged from 26.50 to 40.40 minutes over the audit period. 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 costs” and rejects the time estimates for four of the six activities. The audited total of the average times for the six activities ranges from 13.66 to 15.26 minutes over the audit period. This is the major source of the cost adjustment. The audit “time study” for the four activities is based on observing some of the enrollment fee collection process in the Bursar’s Office. The auditor observed 178 transactions, of which 78 involved payment of enrollment fees. By comparison, the District reported about one million enrollment fee collection transactions for the audit period. For this reason, and many others, the auditor’s observation process does not constitute a representative “time study” sample.

For the remaining two activities (5 and 6), which were not observed by the auditor, the average times were accepted by the auditor.

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 different categories of special admission students. Thus, there was no point for the District to dispute the findings since they are a matter of 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.

There is the related workload multiplier issue of the number of “online” (internet or phone) transactions. When this program became a mandate in FY 1998-99, there was no significant online activity, and so was not factored into the annual claims. However, District data processing staff was able to provide a reasonable estimate of the percentage of online transactions retroactive to FY 2001-02, when the Banner System was established. We also stipulated to a percentage for years prior to FY 2001-02. However, the audit does not include any replacement costs for the online fee collection process in mitigation of this adjustment.

The workload multipliers were accepted by the auditor for the remaining two activities (5 and 6).

C. Productive hourly rates

The salary and benefits productive hourly rate is multiplied by the product of the average staff time per activity and relevant workload multiplier. The draft audit concludes that the District overstated the productive hourly rates because the District did not weight the average rates for each activity. This is discussed at Finding 6.

D. Legal basis for the adjustments

The draft audit report states that the legal basis for these adjustments is the documentation standard contained in the mandate program parameters and guidelines:

The program's 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, lime logs, sign-in sheets, invoices, and receipts."

Thus, the nature and quality of the source documents, as perceived by the auditor, are the stated legal basis for disallowing the District time estimates, workload statistics, and productive hourly rates. It should be remembered that the parameters and guidelines were adopted January 26, 2006, which is seven years after the first fiscal year in the audit period. Regardless, by substituting its own time study for four of the activities, the Controller 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, by accepting the District's reported time and workload statistics for the remaining two 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.

SCO's Comments

The finding and recommendation remain unchanged.

The district addresses four specific issues in its response to Finding 1, specifically:

- A. Average activity time,
- B. Workload multipliers,
- C. Productive hourly rates, and
- D. Legal basis for the adjustments.

We will address our comments in the same order as presented by the district.

Average activity time

The district makes reference to "good faith estimates" provided in support of the average activity time required to perform the reimbursable activities. However, estimates, whether provided in good faith or not, are not in compliance with the adopted parameters and guidelines. The district's mandated cost consultant developed the employee survey forms. Annual survey forms were completed by an average of 73 employees for enrollment fee collection activities for the audit period. Staff members who completed the survey forms estimated the amount of time required to complete various activities. The times recorded by the employees surveyed to complete reimbursable activities 1-4 varied in length as follows:

- Activity 1 (Reference student accounts) – 1 to 60 minutes

- Activity 2 (Calculate/collect enrollment fee) – 1 to 30 minutes
- Activity 3 (Answer student questions) – 1 to 60 minutes
- Activity 4 (Updating student records) – 1 to 38 minutes

The consultant took the time recorded on the survey forms and divided it by the number of responses without verifying the time recorded on the survey forms. All responses were given equal weight even though all employees surveyed did not perform the mandated activities at the same level. In addition, some employees surveyed worked in the district's Financial Aid Office and did not perform the activities of calculating and collecting enrollment fees from students. The district also mentions that the "good faith estimates" were "certified." However, these are corroborating documents. Section IV of the parameters and guidelines also states:

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

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

As the mandated activities took place at the district during the audit period, we assessed whether or not the time estimates cited by district staff were reasonable by conducting observations of district staff performing the reimbursable activities for calculating and collecting enrollment fees. We also held discussions with district staff to determine the procedures that they followed to conduct the reimbursable activities. As a result of our observations and discussions, we determined that the time increments claimed for the first four reimbursable activities (reimbursable activities to reference a student account, calculate the fee, answer questions, and update student records) were unreasonable and excessive. For example, while the district claimed time increments totaling as high as 27.9 minutes for these four activities to collect enrollment fees for each student, we observed that it only took 2.76 minutes to perform these activities. In addition, the activities to calculate the fee and update student records are performed automatically by the district's computerized systems and require little, if any, involvement by district staff.

The district states that the number of observations we made of district staff performing the reimbursable activities was insufficient in scope. However, our auditors spent a week at the district's Admissions and Records and Bursar's Office observing students paying all manner of

fees owed to the district. The district states that it performed “one million enrollment fee collection transactions for the audit period,” although the district did not provide any source documentation to support the time required to perform any of these transactions. Instead, all time increments were supported only by estimates. Our observation results provided actual source documentation for the reimbursable activities and formed a reasonable basis on which to calculate allowable costs.

We first discussed the results of our observations with district management on October 14, 2011. At that meeting, we advised the district that its claims were supported only by estimates and were, therefore, unallowable as claimed. We also advised the district that it could perform a time study to provide actual source documentation for its claims. The district has had more than 20 months before the draft report was issued to perform its own time study, but declined to do so. We performed observations of district staff calculating and collecting fees during January of 2012, and advised district management of our observation results on March 8, 2012. We also advised the district of our intent to apply the observation results to the entire audit period in the absence of source documentation. Therefore, the district has had ample time within which to provide its own actual source data upon which to base allowable costs.

Workload multipliers

The district is correct when it states that we use student enrollment data for the district that we obtained from the California Community Colleges Chancellor’s Office (CCCCO). This data is based upon student enrollment information that the district reported and was adjusted by the CCCCCO to remove duplicate students from the data. The district states that we “modified” the data as a matter of policy. However, we adjusted student enrollment based upon the requirements contained in the parameters and guidelines, (Section IV.A.2.a – Reimbursable Activities – Enrollment Fee Collection – Ongoing Activities) which state that costs incurred to collect enrollment fees from nonresidents and special part-time students cited in Education Code section 76300, subdivision (f) are not reimbursable. Therefore, we adjusted student enrollment numbers obtained from the CCCCCO based upon these requirements.

The district is also correct that we adjusted the multiplier calculation based upon the number of students who paid their enrollment fees in person versus online or through a telephone payment system. The district acknowledges that they gave no significance to fees paid online or through a telephone payment system when preparing its claims. As a result, the district incorrectly claimed costs for fee payments that did not require the involvement of district staff. However, the district did prepare a report during audit fieldwork allocating the number of fees paid online, via telephone, and in person during the audit period. We made our request for this report when we issued our audit start letter on September 1, 2011. The district did not provide this data to us until January 31, 2013.

The district states that “the audit does not include any replacement costs for the online fee collection process in mitigation of this adjustment.”

However, it is not SCO's responsibility to prepare documentation to support mandated costs incurred by the district. This is the responsibility of the district. We encouraged the district to provide support for any additional costs incurred to comply with the mandated activities throughout the course of our audit fieldwork. However, the district did not provide any information supporting "replacement costs" or indicated that it would provide such information. The district did not provide any additional support in its response to the draft audit report.

Productive Hourly Rates

The issue of overstated productive hourly rates is discussed in Finding 6.

Legal Basis for the Adjustments

Our draft audit report is correct when it states that the documentation standards for costs claimed under the Enrollment Fee Collection and Waivers Program are contained in the parameters and guidelines. The parameters and guidelines were adopted by CSM on January 26, 2006, and allowed claims to be filed commencing with FY 1998-99. The SCO's initial set of claiming instructions for this mandated program were issued in April of 2006, and the district filed its initial claims for this program on August 9, 2006. While the district is correct that the parameters and guidelines were adopted seven years after the first fiscal year of the audit period for which costs could be claimed, that issue is irrelevant for the purposes of providing actual cost documentation. The district could have developed actual cost documentation and/or performed a time study of activities actually being performed to support its claims. However, the district did not do this for *any* fiscal year of the audit period and opted to base claimed costs on estimates of reimbursable activities. As a result, the district's claims were never in compliance with the parameters and guidelines at any time during the audit period regarding source documentation. The district even acknowledges in its response that its claims were based on "good faith estimates," some of which were determined to be unreasonable and excessive, as noted previously.

The district states that we are substituting our own time study for four of the reimbursable activities. This statement is incorrect, as the district did not conduct its own time study. Instead, the district conducted a time survey based on estimates of time provided by district staff on forms provided by the district's mandated cost consultant. Therefore, there was no time study for us to "substitute," as the district suggests. We determined the reasonableness of the time estimates claimed by the district for the first four reimbursable activities by observing district staff as they performed these activities. As noted previously, our observations confirmed that these time increments claimed were unreasonable and excessive. However, we concluded that the time claimed for reimbursable activities 5 and 6 (collecting delinquent enrollment fees and providing refunds for students who subsequently received fee waivers after paying their enrollment fees) were reasonable based upon our observations of the activities being performed at the district and discussions with district representatives. The district believes that our acceptance of the time claimed for these two activities validates the

methodology that it used for all of the other activities as well. However, our acceptance of the time claimed for activities 5 and 6 was not based upon our acceptance of the district's methodology. Instead, it was based upon our determination that the time claimed was reasonable, whereas we determined that the time increments claimed for the first four activities was unreasonable.

**FINDING 2—
Enrollment Fee
Waivers: Adopting
Procedure, Recording
Maintaining Records
cost component—
unallowable ongoing
costs**

The district claimed \$18,125 in salaries and benefits related to adopting procedures, recording, and maintaining records related to enrollment fee waivers. We determined that \$8,591 is allowable and \$9,534 is unallowable. Initially, the entire amount was unallowable because costs were based on estimates of time to perform the reimbursable activities.

We worked with the Director of Financial Aid to determine the tasks involved during the audit period to perform the reimbursable activities to adopt new district procedures based on changes in eligibility for BOGG fee waivers and to purge old and store new BOGG fee-waiver records, and the time required to complete them. The Director explained that the costs originally claimed for FY 2010-11 included time spent on non-reimbursable activities such as reporting to the President's Office, reporting on the impact of the Dream Act, and various other non-reimbursable activities.

Based on our interviews with the Director of Financial Aid, we determined the following employee classifications and allowable hours for the reimbursable activity of Adopting Procedures:

FY 1999-2000 through FY 2010-11

- 10 hours for the Director of Financial Aid classification
- 3 hours for the Financial Aid Specialist classification

For the reimbursable activity of Recording and Maintaining Records, we determined that 3 hours were allowable for the Financial Aid Specialist classification.

We applied the audited productive hourly rates to the allowable hours per classification to determine allowable costs.

The following table summarizes the claimed, allowable, and audit adjustment amounts related to adopting procedures, recording, and maintaining records related to enrollment fee waiver costs:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
Salaries and benefits:			
1999-00	\$ -	\$ 529	\$ 529
2000-01	-	573	573
2001-02	-	607	607
2002-03	-	657	657
2003-04	-	710	710
2004-05	-	739	739
2005-06	-	748	748
2006-07	-	808	808
2007-08	-	883	883
2008-09	-	824	824
2009-10	-	663	663
2010-11	<u>18,125</u>	<u>850</u>	<u>(17,275)</u>
Total, salaries and benefits	<u>\$ 18,125</u>	<u>\$ 8,591</u>	<u>\$ (9,534)</u>

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

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

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

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

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

Recommendation

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 draft audit report states that the district claimed \$18,125 in salaries and benefits for the staff cost to adopt procedures, recording, and maintaining waiver records and statistics, of which \$8,591 is allowable and \$9,534 is unallowable. All of the amounts reported by the District for FY 1999-00 through FY 2009-10 were approved. The costs reported for FY 2010-11 were substantially disallowed because staff time was included for activities not related to the mandate. The District does not dispute this adjustment at this time.

SCO’s Comment

The finding and recommendation remain unchanged.

**FINDING 3—
Enrollment Fee
Waivers: Waving
Student Fees cost
component—
unallowable ongoing
costs**

The district claimed \$4,285,990 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), and waiving student fees for students who apply for and are eligible for BOGG fee waivers. We determined that \$236,628 is allowable and \$4,049,362 is unallowable. The costs are unallowable because the district estimated the amount of time required to perform the reimbursable activities. In addition, we noted variations in the number of students used in the district’s calculations based on data the district reported to the CCCCCO. We also made adjustments to the average productive hourly rates used in the district’s claims.

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

	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
1999-00	\$ 120,363	\$ 5,025	\$ (115,338)
2000-01	150,225	5,715	(144,510)
2001-02	285,123	6,908	(278,215)
2002-03	267,027	13,463	(253,564)
2003-04	326,672	14,826	(311,846)
2004-05	331,117	18,250	(312,867)
2005-06	466,102	23,385	(442,717)
2006-07	279,745	24,409	(255,336)
2007-08	911,514	28,677	(882,837)
2008-09	578,134	28,125	(550,009)
2009-10	211,032	31,120	(179,912)
2010-11	358,936	36,725	(322,211)
Total, salaries and benefits	<u>\$ 4,285,990</u>	<u>\$ 236,628</u>	<u>\$ (4,049,362)</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 waivers.
 - i. Answering student’s questions regarding enrollment fee waivers or referring them to the appropriate person for an answer. **[Activity 7]**
 - ii. Receiving of waiver applications from students by mail, fax, computer online access, or in person, or in the form of eligibility information processed by the financial aid office. **[Activity 8]**
 - iii. Evaluating each application and verification documents (dependency status, household size and income, SSI and TANF/CalWorks, etc.) for compliance with eligibility standards utilizing information provided by the student, from the student financial aid records (e.g., Free Application for Federal Student Aid (FAFSA), and other records. **[Activity 9]**
 - iv. In the case of an incomplete application or incomplete documentation, notify the student of the additional required information and how to obtain that information. Hold student application and documentation in suspense file until all information is received. **[Activity 10]**
 - v. In the case of an approved application, copy all documentation and file the information for further review or audit. Entering the approved application information into district records and / or notifying other personnel performing other parts of the process (e.g., cashier’s office). Providing the student with proof of eligibility or an award letter, and file paper documents in the annual file. **[Activity 11]**
 - vi. In the case of a denied application, reviewing an evaluating additional information and documentation provided by the student if the denial is appealed by the student. Provide written notification to the student of the results of the appeal or any change in eligibility status. **[Activity 12]**

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

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

Salaries and Benefits

The district claimed salaries and benefits during the audit period to waive student fees in accordance with groups listed in Education Code section 76300, subdivisions (g) and (h) and to waive fees for students who apply for and are eligible for BOGG fee waivers. For FY 1999-2000 through FY 2010-11, the district claimed salaries and benefits for the six reimbursable activities under the Waiving Student Fees cost component using time allowances developed from estimated time it took staff to complete various activities through the use of employees’ annual survey forms. For FY 1999-2000 through FY 2010-11, 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. The district did not provide any source documentation based on actual data to support the estimated time allowances.

The following table summarizes the minutes claimed for reimbursable activities 7 through 12:

Reimbursable Activity	Claimed						
	FY 1999-2000 Through FY 2000-01	FY2001-02 Through FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
7 Answering questions	5.60	5.60	3.40	5.80	3.10	3.50	4.10
8 Receiving applications	8.40	8.40	4.40	15.40	5.70	5.30	5.50
9 Evaluate applications	10.10	10.10	3.80	9.40	4.30	3.60	8.30
10 Incomplete applications - notification	-	9.90	4.50	12.40	4.60	-	-
11 Approved applications	12.50	12.50	5.40	16.10	5.40	4.30	8.70
12 Review waiver denials appealed by students	-	14.30	5.50	8.40	6.60	-	-
	36.60	60.80	27.00	67.50	29.70	16.70	26.60

As the mandated activities took place at the district during the audit, we assessed whether or not the time estimates cited by district staff for FY 1999-2000 through FY 2010-11 were reasonable. We held discussions with various district representatives in order to determine the procedures that district staff followed to perform the reimbursable activities. We observed district staff in the Financial Aid Office that processes students’ BOGG fee waiver applications. We documented the average time increments spent by district staff to perform these activities based on our observations.

In applying the time allowances, the district did not report the correct number of students who received BOGG fee waivers. We recalculated reimbursable activities using the correct number of students who received BOGG fee waivers (multiplier). We also made adjustments to the average productive hourly rates that were used in the district’s claims. Based on this information, we determined that the district overstated salaries and benefits by \$4,049,362 for the audit period.

Activities 7 through 12–BOGG Fee Waiver Application Processing–General Information

According to the district’s website <http://financialaid.fullcoll.edu/bogfw11-12.html>, the various BOGG fee waivers that may be granted are as follows:

The BOGFW offers waivers of tuition fees and a discounted parking permit fee.

BOGG waiver A: For dependent students whose parents are receiving cash assistance from: TANF/CalWORKs, SSI/SSP, General Assistance. Eligible dependent of a United States Veteran For dependent students of qualified Veterans, Congressional Medal of Honor recipients; Victims of the September 11, 2001, terrorist attack; and deceased law enforcement/fire personnel killed in the line of duty. Dependent students of a deceased law enforcement/fire suppression personnel killed in the line of duty.

Special Classification BOGG waiver: Proof of eligibility from the appropriate district is required.

BOGG waiver B: For low income students. It is based on the previous year's income. If students do not meet the independent criteria, they will use their parents' income to qualify.

BOGG waiver C: eligibility is determined by filing a FAFSA (Free Application for Federal Student Aid) application. Once the district receives a valid SAR (Student Aid Report), the student will automatically be considered for a BOGW.

We determined that the district may process some students multiple times if the student first applies for a BOGG fee waiver and is denied for BOGG fee waiver A or BOGG fee waiver B. In addition, district staff will have little or no involvement with students who use the district's online BOGW application process or the FASFA online process for BOGG fee waiver C. For FY 1999-2000 through FY 2004-05, all applications were received in paper form and manually processed by district staff. Students were able to apply for BOGG fee waivers online beginning in FY 2005-06.

For BOGG fee waiver A, students may apply online or in person. However, whether students apply online or in person, the student still must bring in proof of benefits received to the Financial Aid Office.

For special-classification BOGG waivers, the staff time involvement is similar to the BOGG A fee waiver, as described above. Students must bring in proof of eligibility to the Financial Aid and Scholarship Office.

For BOGG fee waiver B, only students who are dependents must bring in a parent signature page. However, if the student is independent and qualifies based on income requirements, there is no staff time involved to process this application. For these students, the system automatically approves the BOGG fee waiver. Once the BOGG waiver is granted, students receive an automatic notice through their online "myGateway" school account.

For BOGG fee waiver C, students may initially apply for BOGG fee waiver A or B and be denied. If the student does not qualify for a BOGG fee waiver, the student is asked to apply for financial aid. A BOGG fee waiver C may then be granted through the FAFSA application process. There are no additional documentation requirements for the BOGG fee waivers granted through the FAFSA. However, there

are additional FAFSA documentation verification requirements, such as maintaining a certain GPA, verifying tax returns, and verifying maximum units taken. After the FAFSA requirements have been reviewed, staff reviews specific information in order to grant a BOGG fee waiver if the student qualifies and one has not already been automatically granted. The increased staff involvement for the BOGG fee waiver in this case occurs after the FAFSA requirements have been reviewed.

Most students apply online for the BOGG fee waiver through the FAFSA. To apply for the BOGG fee waiver, students access the application through “myGateway” by clicking on the financial aid link on “Webstar.” We were given an overall step-by-step overview of how district staff processes BOGG fee waiver applications and reviews supporting documentation through the FAFSA documentation verification process.

The financial aid verification process is mandated by the U.S. Department of Education. Community College Districts are required to verify at least 50% of the financial aid applications for eligibility of federal aid. The Director of Financial Aid indicated that the district strives to verify no less than 70% of the financial aid applications because of the potential liability to the college. At the completion of the financial aid verification process, district staff verifies eligibility for a BOGG fee waiver and/or ensures that a BOGG fee waiver has been posted or granted, if the student is eligible. Therefore, at least 70% of the BOGG fee waiver applications are verified for eligibility. The financial aid staff may also answer student questions regarding the BOGG fee waiver when calling students in regard to the financial aid application.

The district also has a dedicated online BOGG fee waiver application. The application is a protected link, accessible only once the student logs in via the “myGateway” student portal. This is used for BOGG A, BOGG B and BOGG F (Special Classifications) waivers.

Activity 7—Answering student questions

We observed Student Hourly staff, Clerical Assistants, Financial Aid Technicians, and a Financial Aid Specialist helping students who applied in person for a BOGG fee waiver. At the front counters, staff answer BOGG fee waiver questions and direct students to fill out the BOGG fee waiver application online at a computer located adjacent to the counter. Financial Aid staff at the back counters of the Financial Aid Office evaluate BOGG fee waiver supporting documents, notify students by email of approved, incomplete, and denied applications, and call students to obtain additional information.

Activity 8—Receiving enrollment fee waiver applications

The district received paper BOGG Fee waiver applications up to FY 2004-05. Currently, the district may receive BOGG fee waiver applications through the district’s BOGW online system or through the FAFSA website. All of the BOGG fee waivers currently processed by the district are through the district’s BOGW online system and through the FAFSA website.

Activity 9–Evaluating waiver applications and verifying documentation

The Financial Aid Technicians and Financial Aid Specialist evaluated and processed the paper BOGG fee waiver applications prior to FY 2004-05. Beginning in FY 2005-06, the BOGG fee waivers were automated.

The automated BOGG fee waiver applications approved online with no documentation requirements are not evaluated by district staff. However, the Financial Aid Technicians and Financial Aid Specialists evaluate BOGG fee waiver supporting documents on an ongoing basis. In addition, the Financial Aid Technicians and Financial Aid Specialists evaluate FAFSA applications throughout the year. Therefore, while evaluating the financial Aid requirements, district staff also verifies BOGG fee waiver eligibility.

Furthermore, if a student makes an error while completing the online BOGG fee waiver application, the district requires the student to provide proof (documentation) in order to correct the error. Once the proper documentation is provided, staff is able to “reset” a new BOGG fee waiver online application for the student to complete again.

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

Financial Aid Office staff indicated that students can’t finish the application if they don’t answer all the questions. The district uses “myGateway,” which is the district’s student portal system. At the end of the BOGG fee application process, students receive either a congratulations notification or an “I’m sorry, you don’t qualify” notification. Most students initiate communication with district staff if the BOGG fee waiver has not been granted or posted. Staff may access a student’s computer file and view prior comments or notes and inform students of any additional required information.

As noted above, if a student makes an error on the online BOGG fee waiver application, the district requires the student to provide proof (documentation) in order to correct the error. Once the proper documentation is provided, staff is able to “reset” a new BOGG fee waiver online application for the student to complete again.

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

We observed staff accepting BOGG fee waiver supporting documents (Activity 8), evaluating applications and supporting documents for eligibility (Activity 9), copying all supporting documents, and filing the information for further review (Activity 11). If the district determined that the student is eligible for a BOGG fee waiver, staff post the fee waiver and create a “budget” for the student.

In addition, during the FAFSA application process, the student’s information is loaded into the district’s student database from the FAFSA website. During the FAFSA application process, staff briefly

reviews student information to determine if the student is eligible for a BOGG fee waiver. If the student is eligible for a BOGG fee waiver, staff posts the BOGG waiver to the student's account.

Activity 12–Appealing a denied BOGG fee waiver application

District staff explained that the district does not have a formal appeal process for denied BOGG fee waiver applications. According to the Financial Aid Director, there are very few denials. The denials usually result because the student's and/or parent(s)' income exceeds the eligibility threshold. If the waiver is denied, students are instructed to apply for financial aid using the FAFSA website.

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 per-student time allowances of 36.60 minutes for FY 1999-2000 through FY 2000-01, 60.80 minutes for FY 2001-02 through FY 2005-06, 27.0 minutes for FY 2006-07, 67.50 minutes for FY 2007-08, and 29.70 minutes for FY 2008-09, 16.70 minutes for FY 2009-10, and 26.6 minutes for FY 2009-10.

We determined that the time allowances claimed for these activities were overstated for the entire audit period. We held discussions with various district representatives during the audit in order to determine the procedures district staff followed to perform the reimbursable activities. We observed district staff in the Financial Aid Office performing the reimbursable activities and other non-mandated activities. We documented the average time increments spent by district staff for the reimbursable activities. Over several days, we observed 225 enrollment fee waiver transactions processed by district staff encompassing Activities 7 through 11 totaling 232.7 minutes. The average time to perform all five activities was 2.60 minutes or 0.52 minutes per activity. The Office Supervisors were encouraged to watch over the auditors while our observations were being documented. We documented the average time increments spent by district staff to perform the reimbursable activities based on our observations. We reviewed the observations as they took place with the Office Supervisors. The district's mandated cost consultant and District management staff advised the Office Supervisors and the college campus staff not to comment on any of our analysis results, determinations, or observations. In addition, the District Director of Fiscal Affairs advised us not to discuss our audit results with management or any other campus staff.

In order to provide an actual cost basis on which to determine allowable costs for the district's claims, we applied the results of our observations to all years of the audit period.

Multiplier Calculation

For Activities 7 through 12, the district claimed costs by multiplying the number of BOGG fee waivers based on district records by a uniform time allowance and an annual average productive hourly rate. For Activities 7, 8, and 9, the district used the number of students who received a BOGG fee waiver plus the number of denied and incomplete BOGG fee waiver applications as the multiplier. For Activity 10, the district used the number of incomplete BOGG fee waiver applications at the end of the year. For Activity 11, the district used the number of students who received a BOGG fee waiver. For Activity 12, the district used the same number of BOGG fee waivers that were incomplete at the end of the year as the number of applications that were appealed by students for incorrect information.

For Activities 7, 8, 9, and 10, we applied the time required to perform the reimbursable activities by the number of students who received BOGG fee waivers, according to statistics provided by the CCCCCO. Using data that the district reported, the CCCCCO identified the unduplicated number of BOGG recipients by term based on MIS data element SF21 and all codes with the first letter of B or F. For Activities 7 through 10, we adjusted the CCCCCO information by including students whose fee waiver applications were incomplete at the end of the year.

For Activity 10 (incomplete BOGG fee waiver applications), we applied the time increments to the number of incomplete BOGG fee waiver applications at the end of the year claimed by the district and included the number of students who received BOGG fee waivers, according to statistics provided by the CCCCCO. This represents the maximum number of incomplete applications that may have been processed by district staff throughout the year.

For Activity 11 (approved BOGG fee waiver applications) we applied the time required to perform the reimbursable activity by the number of students who received BOGG fee waivers according to statistics provided by the CCCCCO. Using data that the district reported, the CCCCCO 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.

For Activity 12 (appeals of denied BOGG fee waiver applications) we did not apply any time increments to the number of student appeals of denied BOGG fee waiver applications claimed by the district. As noted previously, the district does not have any process in place to review denied BOGG fee waiver applications. Rather than conduct a review of denied BOGG fee waivers, students are instructed to apply for Financial Aid.

Calculation of Time Increments Adjustment

The following table summarizes the minutes claimed and allowable for reimbursable Activities 7 through 12:

Reimbursable Activities	Claimed							Allowable FY 1999-2000 Through FY 2010-11
	FY 1999-2000 Through FY 2000-01	FY 2001-02 Through FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	
	7 Answering questions	5.60	5.60	3.40	5.80	3.10	3.50	
8 Receiving applications	8.40	8.40	4.40	15.40	5.70	5.30	5.50	0.52
9 Evaluate applications	10.10	10.10	3.80	9.40	4.30	3.60	8.30	0.52
10 Incomplete applications - notification	-	9.90	4.50	12.40	4.60	-	-	0.52
11 Approved applications	12.50	12.50	5.40	16.10	5.40	4.30	8.70	0.52
12 Review waiver denials appealed by students	-	14.30	5.50	8.40	6.60	-	-	-
	<u>36.60</u>	<u>60.80</u>	<u>27.00</u>	<u>67.50</u>	<u>29.70</u>	<u>16.70</u>	<u>26.60</u>	<u>2.60</u>

Note: Numbering is used to facilitate referencing to individual reimbursable activities.

Calculation of Multiplier Adjustment—Number of BOGG Fee Waivers

The following table summarizes the claimed and allowable, and adjustment amounts for the multiplier for each reimbursable activity that took place at the district for reimbursable Activities 7 through 12:

Reimbursable Activity	Claimed Multiplier	Allowable Multiplier	Adjusted Multiplier
7	274,891	267,412	(7,479)
8	274,891	267,412	(7,479)
9	274,891	267,412	(7,479)
10	10,937	267,412	256,475
11	263,954	256,475	(7,479)
12	10,937	-	(10,937)
	<u>1,110,501</u>	<u>1,326,123</u>	<u>215,622</u>

Productive Hourly Rates

The district also overstated the average productive hourly rates used for Activities 7 through 12 in its claims for the audit period. The district's average productive hourly rates included staff that did not perform Activities 7 through 12 and excluded staff that did perform the reimbursable activities. We determined that the staff excluded was employees that did not receive a time survey form. In addition, the district did not weigh the average rate by employee classification. Instead, all employee classifications were weighted at the same level as if they performed the reimbursable activities to the same extent. As explained in Finding 6, we recalculated the average productive hourly rates based on actual employees involved in waiving student fees activities and made minor changes to the claimed rates.

Calculation of Hours Adjustments

We multiplied the allowable minutes per reimbursable activity by the multiplier for the reimbursable activities (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 and allowable hours by reimbursable activity for the audit period:

Reimbursable Activity	Hours Claimed	Hours Allowable	Adjusted Hours
7	21,409.76	2,317.58	(19,092.18)
8	35,806.54	2,317.58	(33,488.96)
9	35,224.54	2,317.58	(32,906.96)
10	1,637.41	2,317.58	680.17
11	43,627.15	2,222.77	(41,404.38)
12	2,124.62	-	(2,124.62)
	<u>139,830.02</u>	<u>11,493.09</u>	<u>(128,336.93)</u>

Calculation of Costs by Reimbursable Activities

We applied the audited productive hourly rates to the allowable hours per reimbursable activity. We determined that salaries and benefits totaling \$236,628 are allowable and \$4,049,362 are unallowable.

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

Reimbursable Activity	Salaries and Benefits Claimed	Salaries and Benefits Allowable	Adjusted Hours
7	\$ 656,120	\$ 47,690	\$ (608,430)
8	1,127,771	47,690	(1,080,081)
9	1,062,784	47,690	(1,015,094)
10	47,017	47,690	673
11	1,333,301	45,868	(1,287,433)
12	58,997	-	(58,997)
	<u>\$ 4,285,990</u>	<u>\$ 236,628</u>	<u>\$ (4,049,362)</u>

Recommendation

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 draft audit report states that the District claimed \$4,285,990 in salaries and benefits for the staff cost of approving or denying BOGG enrollment fee waivers, of which \$236,628 is allowable and \$4,049,361 is unallowable. This cost component is calculated in the same manner as the Enrollment Fee Collection cost component and the costs are disallowed for same reasons: average staff time required to perform the reimbursable activities; enrollment data and other workload multipliers; online transactions; and, weighted productive hourly rates.

Regarding the average activity times, the District claimed average times for the six activities ranging from 27.00 to 60.80 minutes over the audit period. The draft audit rejects the time estimates for all six activities. The audited total of the average times for the six activities is 2.6 minutes for all fiscal years. This is the major source of the cost adjustment. The audit “time study” for the activities is based on observing 225 enrollment fee waiver process transactions in the Financial Aid Office. By comparison, the District reported about 275,000 transactions for the audit period.

For five of the six activities the workload multipliers rely upon enrollment statistics with relevant adjustment. As a matter of Controller policy, the auditor utilized data obtained from the Chancellor’s Office. For the sixth activity, appeals of denied waivers, the audit concludes that this activity was not performed, and disallows the workload multiplier reported by the District. The District believes the disallowance of the sixth component is a matter of interpretation that can only be resolved by appeal to the Commission.

Adjustments similar to those made for the enrollment fee collection cost component were also made here for the percentage of online transactions and the productive hourly rates. All of these issues are a subject for the appeal.

SCO’s Comment

The finding and recommendation remain unchanged.

The district acknowledges in its response that the time increments claimed for the cost component of Waiving Student Fees were based on estimates for all six activities. As noted previously, the parameters and guidelines require that costs claimed be supported by actual cost documentation. The district did not provide such documentation for any year of the audit period.

The district’s mandated cost consultant developed the employee survey forms. Annual survey forms were completed by an average of 49 employees for enrollment fee waivers activities for the audit period. Staff members who completed the survey forms estimated the amount of time required to complete various activities. The times recorded by the employees surveyed to complete reimbursable activities 7-11 varied in length as follows:

- Activity 7 (Answer student questions) – 1 to 30 minutes
- Activity 8 (Receive applications) – 1 to 30 minutes
- Activity 9 (Evaluate applications) – 1 to 25 minutes
- Activity 10 (Incomplete applications) – 1 to 30 minutes
- Activity 11 (Approved applications) – 1 to 30 minutes

The consultant took the time recorded on the survey forms and divided it by the number of responses without verifying the time recorded on the survey forms. All responses were given equal weight even though all employees surveyed did not perform the mandated activities at the same level. In addition, some employees surveyed worked in the district’s Admissions and Records Office and did not perform the activities of processing BOGG fee waiver applications for students.

The district implies that the number of observations we made of district staff performing the reimbursable activities was insufficient in scope. However, our auditors spent several weeks at the district's Financial Aid Office observing staff assist students with all manner of financial aid transactions, including the processing of BOGG fee waiver applications. We observed that the time required for staff to process financial aid and/or loan applications was significantly more time consuming than the time required to process BOGG fee waiver applications. The district states that it "reported about 275,000 transactions for the audit period," although the district did not provide any source documentation to support any of these transactions. Instead, all time increments were only supported by estimates. Our observation results provided actual source documentation for the reimbursable activities and formed a reasonable basis on which to calculate allowable costs.

The district states in its response that unallowable costs for activity #12 (appeals of denied BOGG fee waiver applications) were based on "a matter of interpretation." We disagree. Based on a discussion with the district's Financial Aid Director, there are very few denials of BOGG fee waiver applications. The Director explained that denials usually result because the student's and/or parent(s)' income exceeds the eligibility threshold. If the BOGG fee waiver application is denied, students are instructed to apply for financial aid using the FAFSA (Free Application for Federal Student Aid) website. As a result, the district does not have any additional procedures in place to process student appeals of denied BOGG fee waivers. Therefore, no additional costs were incurred by the district for a process that did not exist during the audit period. While the district does have procedures in place to process appeals of denied financial aid applications, these appeals are not reimbursable under the mandated program because they do not relate to the processing of BOGG fee waiver applications.

The district states in its response that part of the audit adjustment for the Waiving Student Fees cost component relates to "the percentage of online transactions." However, our audit adjustment includes no such finding. Instead, the multiplier calculation includes all approved BOGG fee waiver applications reported by the district to the CCCCCO plus the number of incomplete and denied waivers at the end of the year reported by the district. In addition, we adjusted the multiplier upwards by 256,475 students for processing incomplete BOGG fee waiver applications (reimbursable activity #10). We determined that this was the maximum number of incomplete BOGG fee waiver applications that could have been processed by the district throughout each year of the audit period.

**FINDING 4—
Unallowable indirect
costs**

The district claimed indirect costs during the audit period totaling \$3,875,164 for enrollment fee collection activities and \$1,567,393 for enrollment fee waiver activities. For enrollment fee collection activities, we determined that \$298,408 is allowable and \$3,576,756 is unallowable. For enrollment fee waiver activities, we determined that \$93,556 is allowable and \$1,473,837 is unallowable. The costs are unallowable because the district incorrectly applied its indirect cost rates to employee benefits for FY 1998-99 to FY 2005-06 (\$47,477),

understated its indirect cost rates for FY 2008-09 through FY 2010-11 (\$2,041), and claimed unallowable salaries and benefits identified in Findings 1 through 3 (\$5,005,157).

Indirect Cost Rates Claimed

For FY 1998-99 through FY 2007-08, the district claimed indirect costs based on indirect cost rates that it prepared using the principles of Title 2, Code of Federal Regulations, Part 220 (Office of Management and Budget (OMB) Circular A-21). For FY 1998-99, through FY 2005-06, the district applied the indirect cost rate to salaries and benefits. However, the federal rate was calculated using only a base of salary and wages. Accordingly, we limited our application of the indirect cost rates for those years to allowable salaries and wages. The district provided, and we accepted, benefit rates in order to split salary and benefit amounts separately and apply the indirect cost rates only to salaries and wages.

The district misstated its indirect cost rates for FY 2008-09 through FY 2010-11. For FY 2008-09, the district claimed indirect costs using the SCO’s FAM 29C methodology. The district calculated the rate using total direct costs as the base instead of salaries and benefits. The base indicated by the SCO’s claiming instructions is salaries and benefits. We recalculated the rate using salaries and benefits as the base and applied the rate accordingly. For FY 2009-10 and FY 2010-11, we were unable to determine why the district’s rates were misstated.

Our calculations show that the district misstated its indirect cost rates for FY 2008-09 through FY 2010-11.

The following table summarizes the claimed, allowable, and audit adjustments for indirect cost rates:

Fiscal Year	Claimed				Allowable				Audit Adjustment
	Indirect Cost Rate Claimed	Option Used	Calculated Rate using Base of	Applied Base to	Indirect Cost Rate Allowable	Option Used	Calculated Rate using Base of	Applied Base to	
1998-99	38.00%	Fed. Rate	Salaries	Sal. & Ben.	38.00%	Fed. Rate	Salaries	Salaries	0.00%
1999-2000	38.00%	Fed. Rate	Salaries	Sal. & Ben.	38.00%	Fed. Rate	Salaries	Salaries	0.00%
2000-01	38.00%	Fed. Rate	Salaries	Sal. & Ben.	38.00%	Fed. Rate	Salaries	Salaries	0.00%
2001-02	38.00%	Fed. Rate	Salaries	Sal. & Ben.	38.00%	Fed. Rate	Salaries	Salaries	0.00%
2002-03	39.00%	Fed. Rate	Salaries	Sal. & Ben.	39.00%	Fed. Rate	Salaries	Salaries	0.00%
2003-04	39.00%	Fed. Rate	Salaries	Sal. & Ben.	39.00%	Fed. Rate	Salaries	Salaries	0.00%
2004-05	39.00%	Fed. Rate	Salaries	Sal. & Ben.	39.00%	Fed. Rate	Salaries	Salaries	0.00%
2005-06	39.00%	Fed. Rate	Salaries	Sal. & Ben.	39.00%	Fed. Rate	Salaries	Salaries	0.00%
2006-07	29.50%	Fed. Rate	Total Dir. Cost	Total Dir. Cost	29.50%	Fed. Rate	Total Dir. Cost	Total Dir. Cost	0.00%
2007-08	29.50%	Fed. Rate	Total Dir. Cost	Total Dir. Cost	29.50%	Fed. Rate	Total Dir. Cost	Total Dir. Cost	0.00%
2008-09	37.04%	FAM 29C	Total Dir. Cost	Sal. & Ben.	37.99%	FAM 29C	Sal. & Ben.	Sal. & Ben.	0.95%
2009-10	39.08%	FAM 29C	Sal. & Ben.	Sal. & Ben.	38.48%	FAM 29C	Sal. & Ben.	Sal. & Ben.	-0.60%
2010-11	40.48%	FAM 29C	Sal. & Ben.	Sal. & Ben.	41.63%	FAM 29C	Sal. & Ben.	Sal. & Ben.	1.15%

Enrollment Fee Collection

The district claimed \$3,875,164 for indirect costs during the audit period, related to salaries and benefits claimed for enrollment fee collection activities. We determined that \$298,408 is allowable and \$3,576,756 is unallowable. We determined that \$37,106 is unallowable because the district incorrectly applied its indirect cost rates to benefits for FY 1998-99 through FY 2005-06, \$1,462 is understated as a result of miscalculated rates for FY 2008-09 through FY 2010-11, and \$3,541,112 is unallowable due to the unallowable salaries and benefits identified in Findings 1 through 3.

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

Enrollment Fee Collection					
Fiscal Year	Claimed Indirect Cost Rates	Allowable Indirect Cost Rates	Claimed Indirect Costs	Allowable Indirect Costs	Audit Adjustment
1998-99	38.00%	38.00%	\$ 228,279	\$ 14,310	\$ (213,969)
1999-2000	38.00%	38.00%	249,272	16,329	(232,943)
2000-01	38.00%	38.00%	292,607	17,393	(275,214)
2001-02	38.00%	38.00%	287,240	21,188	(266,052)
2002-03	39.00%	39.00%	286,613	20,814	(265,799)
2003-04	39.00%	39.00%	265,261	15,790	(249,471)
2004-05	39.00%	39.00%	268,535	15,344	(253,191)
2005-06	39.00%	39.00%	323,821	18,878	(304,943)
2006-07	29.50%	29.50%	278,251	23,197	(255,054)
2007-08	29.50%	29.50%	404,525	27,114	(377,411)
2008-09	37.04%	37.99%	368,848	35,421	(333,427)
2009-10	39.08%	38.48%	324,465	33,112	(291,353)
2010-11	40.48%	41.63%	297,447	39,518	(257,929)
			<u>\$ 3,875,164</u>	<u>\$ 298,408</u>	<u>\$ (3,576,756)</u>

Enrollment Fee Waivers

The district claimed \$1,567,393 for indirect costs during the audit period related to salaries and benefits claimed for enrollment fee waivers activities. We determined that \$93,556 is allowable and \$1,473,837 is unallowable. We determined that \$10,371 is unallowable because the district incorrectly applied its indirect cost rates to benefits for FY 1998-99 through FY 2005-06, \$579 is understated as a result of miscalculated rates for FY 2008-09 through FY 2010-11, and \$1,464,045 is unallowable due to the unallowable salaries and benefits identified in Findings 1 through 3.

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

Fiscal Year	Enrollment Fee Waivers				
	Claimed Indirect Cost Rates	Allowable Indirect Cost Rates	Claimed Indirect Costs	Allowable Indirect Costs	Audit Adjustment
1999-2000	38.00%	38.00%	\$ 46,693	\$ 2,584	\$ (44,109)
2000-01	38.00%	38.00%	58,047	2,824	(55,223)
2001-02	38.00%	38.00%	109,402	3,293	(106,109)
2002-03	39.00%	39.00%	105,375	5,417	(99,958)
2003-04	39.00%	39.00%	128,597	5,269	(123,328)
2004-05	39.00%	39.00%	130,435	6,289	(124,146)
2005-06	39.00%	39.00%	183,260	7,873	(175,387)
2006-07	29.50%	29.50%	83,672	8,585	(75,087)
2007-08	29.50%	29.50%	270,254	10,077	(260,177)
2008-09	37.04%	37.99%	215,872	12,774	(203,098)
2009-10	39.08%	38.48%	82,472	12,230	(70,242)
2010-11	40.48%	41.63%	153,314	16,341	(136,973)
			<u>\$ 1,567,393</u>	<u>\$ 93,556</u>	<u>\$ (1,473,837)</u>

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

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

Recommendation

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 draft audit report states that the District claimed indirect costs of \$3,875,164, for the enrollment fee collection component and \$1,567,393, for the enrollment fee waiver component, of which \$298,408, and \$93,556, is allowable, respectively. For the thirteen years included in the audit period, the indirect cost percentage rate was adjusted for three years only, and then was modified by only .60% to 1.15% percent. Therefore, most of the disallowed indirect costs derive from the disallowed direct costs from the first three audit findings.

Another source of difference in the calculation from year-to-year is the Controller's inconsistent policy regarding whether the indirect cost rate should be based on total direct costs, or salary and benefits, or just salaries, and then whether the rate so determined should be applied to the same amounts. During the audit period, the Controller's policy changed three times.

The audit report does not state that the District’s calculations are unreasonable, just that they aren't the same choice of methods as the

Controller's policies and claiming instructions. There are no regulations or pertinent generally mandated methods for the calculation, so it is a matter of professional judgment. The minor difference of about 1% between the claimed amounts and audit results for the last three fiscal years indicates that District calculations are reasonable. However, I am told that 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 Comment

The finding and recommendation remains unchanged.

The district is correct in stating that most of the unallowable indirect costs relate to unallowable direct costs from the first three audit findings. The district's statement that "During the audit period, the Controller's policy changed three times" is not supported, as the district is not specifying what SCO policy changed and when. Instead, the district makes a general argument about the calculation of indirect costs and the application of those costs to the same base upon which the rate was determined without providing any specifics.

The district also states in its response that "There are no regulations or pertinent generally mandated methods for the calculation, so it is a matter of professional judgment." We disagree. The parameters and guidelines (Section V.B – Claim Preparation and Submission – Indirect Cost Rates) states that "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." If the district is going to calculate its indirect cost rate using one of the first two options prescribed by the parameters and guidelines, which it did, then the district must follow the applicable instructions provided for each methodology to calculate and apply its rates.

During the audit period, the district used a federally approved OMB A-21 indirect cost rate for the first 10 years of the audit period. As noted in the audit report, the district did not properly apply the federally approved rate to the correct base for the first eight years of the audit period. For the last three years of the audit period, the district used the SCO's FAM-29C methodology to claim indirect costs. As noted in the audit report, the rates were misstated by minor amounts.

FINDING 5— Misstated offsetting reimbursements

The district claimed offsetting reimbursements totaling \$1,152,929 for enrollment fee collection and \$3,266,094 for enrollment fee waivers. We determined that offsetting reimbursements were misstated by \$50,021 (overstated by \$157,281 and understated by \$207,302) for enrollment fee collection and overstated by \$2,891,301 for enrollment fee waivers. The offsetting reimbursements were misstated 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 in any fiscal year of the audit period.

Enrollment Fee Collection

For the audit period, the district claimed offsetting reimbursements for enrollment fee collection related to the offset of two percent of revenues from enrollment fees. We obtained a report from the CCCCCO confirming enrollment fee collection offsets paid to the district totaling \$2,030,411 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 \$1,202,950; therefore, this amount represents offsets applicable to the audit period. The district claimed \$1,152,929. Consequently, the district misstated offsetting reimbursements by \$50,021 (overstated by \$157,281 and understated by \$207,302).

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)	Offsets Claimed (B)	Actual Offsets Confirmed by the CCCCCO (C)	Offset Applicable to Audit (D)	Audit Adjustment (E) = (D-B)
1998-99	\$ 58,982	\$ (42,803)	\$ (104,798)	\$ (58,982)	\$ (16,179)
1999-2000	67,309	(42,290)	(98,797)	(67,309)	(25,019)
2000-01	71,721	(45,177)	(101,151)	(71,721)	(26,544)
2001-02	87,393	(37,750)	(101,363)	(87,393)	(49,643)
2002-03	87,243	(61,633)	(103,807)	(87,243)	(25,610)
2003-04	71,534	(66,553)	(146,275)	(71,534)	(4,981)
2004-05	69,799	(115,845)	(208,301)	(69,799)	46,046
2005-06	85,847	(118,851)	(211,464)	(85,847)	33,004
2006-07	101,830	(133,267)	(196,898)	(101,830)	31,437
2007-08	119,026	(102,049)	(179,722)	(119,026)	(16,977)
2008-09	128,659	(97,611)	(183,181)	(128,659)	(31,048)
2009-10	119,162	(107,861)	(213,415)	(119,162)	(11,301)
2010-11	134,445	(181,239)	(181,239)	(134,445)	46,794
Total	<u>\$ 1,202,950</u>	<u>\$ (1,152,929)</u>	<u>\$ (2,030,411)</u>	<u>\$ (1,202,950)</u>	<u>\$ (50,021)</u>

Consequently, the unused portion of offsetting reimbursements related to enrollment fee collection costs total \$827,461 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1998-99	\$ (104,798)	\$ (58,982)	\$ (45,816)
1999-2000	(98,797)	(67,309)	(31,488)
2000-01	(101,151)	(71,721)	(29,430)
2001-02	(101,363)	(87,393)	(13,970)
2002-03	(103,807)	(87,243)	(16,564)
2003-04	(146,275)	(71,534)	(74,741)
2004-05	(208,301)	(69,799)	(138,502)
2005-06	(211,464)	(85,847)	(125,617)
2006-07	(196,898)	(101,830)	(95,068)
2007-08	(179,722)	(119,026)	(60,696)
2008-09	(183,181)	(128,659)	(54,522)
2009-10	(213,415)	(119,162)	(94,253)
2010-11	(181,239)	(134,445)	(46,794)
Total	\$ (2,030,411)	\$ (1,202,950)	\$ (827,461)

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 CCCCO confirming enrollment fee waivers offsets paid to the district totaling \$3,272,412 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 \$374,793; therefore, this amount represents offsets applicable to the audit period. The district claimed \$3,266,094. Consequently, the district overstated allowable enrollment fee waiver offsets by \$2,891,301 as follows:

Enrollment Fee Waivers Offsets					
Fiscal Year	Allowable Direct and Related Indirect Costs (A)	Offsets Claimed (B)	Actual Offsets Confirmed by the CCCCO (C)	Offset Applicable to Audit (D)	Audit Adjustment (E) = (D-B)
1999-2000	\$ 10,650	\$ (122,875)	\$ (167,427)	\$ (10,650)	\$ 112,225
2000-01	11,644	(152,757)	(195,660)	(11,644)	141,113
2001-02	13,582	(224,630)	(188,560)	(13,582)	211,048
2002-03	22,707	(239,124)	(233,423)	(22,707)	216,417
2003-04	23,869	(266,303)	(235,375)	(23,869)	242,434
2004-05	28,608	(334,447)	(320,728)	(28,608)	305,839
2005-06	35,802	(341,804)	(302,933)	(35,802)	306,002
2006-07	37,688	(283,631)	(331,893)	(37,688)	245,943
2007-08	44,236	(335,172)	(307,226)	(44,236)	290,936
2008-09	46,399	(269,459)	(293,765)	(46,399)	223,060
2009-10	44,013	(211,032)	(328,651)	(44,013)	167,019
2010-11	55,595	(484,860)	(366,771)	(55,595)	429,265
Total	\$ 374,793	\$ (3,266,094)	\$ (3,272,412)	\$ (374,793)	\$ 2,891,301

Consequently, the unused portion of offsetting reimbursements related to enrollment fee waivers costs total \$2,897,619 as follows:

Fiscal Year	Actual Offsets Confirmed by the CCCCO (A)	Offset Applicable to Audit (B)	Unused Portion of Offsets (A-B)
1999-2000	\$ (167,427)	(10,650)	\$ (156,777)
2000-01	(195,660)	(11,644)	(184,016)
2001-02	(188,560)	(13,582)	(174,978)
2002-03	(233,423)	(22,707)	(210,716)
2003-04	(235,375)	(23,869)	(211,506)
2004-05	(320,728)	(28,608)	(292,120)
2005-06	(302,933)	(35,802)	(267,131)
2006-07	(331,893)	(37,688)	(294,205)
2007-08	(307,226)	(44,236)	(262,990)
2008-09	(293,765)	(46,399)	(247,366)
2009-10	(328,651)	(44,013)	(284,638)
2010-11	(366,771)	(55,595)	(311,176)
Total	\$ (3,272,412)	\$ (374,793)	\$ (2,897,619)

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

Enrollment Fee Waiver Program:

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

July 1, 1999 to July 4, 2000:

- For low income students² or recipients of public assistance³, or dependents or surviving spouses of National Guard soldiers killed in the line of duty⁴ as defined:
 - an offset identified in Education Code section 76300, subdivision (m), that requires the community college Board of Governors, from funds in the annual budget act, to allocated to community college two percent (2%) of the fees waived, under subdivision (g) [low income students, as defined, or specified recipient of public assistance] and (h) [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined] of section 76300; and

- For determination of financial need and delivery of student financial aid services, on the basis of the number of low income students (as defined) or recipients of public assistance (as defined), or dependents or surviving spouses of National Guard soldiers killed in the line of duty, for whom fees are waived:
 - from funds provided in the annual State Budget Act, the board of governors shall allocate to community college districts, pursuant to this subdivision, an amount equal to seven (7%) of the fee waivers provided, pursuant to subdivisions (g) [low income students, as defined, or specified recipients of public assistance] and 9h0 [dependents or surviving spouses of California National Guard soldiers killed in the line of duty, as defined].⁵

Beginning July 5, 2000:

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

Note – Footnotes 2 through 5 are included in the parameters and guidelines to provide additional clarification.

Recommendation

We recommend that the district report the applicable offsetting reimbursements for the Enrollment Fee Collection and Waivers Program on its mandated cost claims based on information provided by the CCCCCO.

District's Response

The draft audit report states that the District understated offsetting reimbursements by \$50,021 for the enrollment fee collection cost component, and overstated by \$2,891,301 for the enrollment fee waiver cost component.

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 audited offsetting revenue data is based on information obtained by the auditor from the Chancellor's Office developed after the end of each fiscal year. The District and other claimants at the time the annual claims are prepared must calculate the amounts based on contemporaneous enrollment information, which would be a continuing source of minor differences.

However, the differences here are not minor. The magnitude of the offsetting revenue adjustment results from the magnitude of the disallowed activity costs in Findings 1 through 4, since the offset cannot exceed the reimbursable cost. As the amount of audited cost decreases, there is a corresponding decrease in applicable offsetting revenues. For the enrollment fee collection component, the audited offset exceeds the program cost by \$631,892. For the enrollment fee waiver component, the offset exceeds the audited program cost by \$2,897,619. If the approved program costs increases, these offsetting revenue differences will decrease in the same amount.

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

SCO's Comment

The recommendation remains unchanged.

Subsequent to the issuance of the draft audit report, we corrected the total shown in the table at the top of page 41 in that report from \$(631,892) to \$(827,461). Therefore, we corrected the audit report to state that "the unused portion of offsetting reimbursements related to enrollment fee collection costs total \$827,461". . . This change did not affect any of the allowable and audit adjustment amounts shown in Schedule 1--Summary of Program Costs.

**FINDING 6—
Overstated productive
hourly rates for
Calculating and
Collecting Enrollment
Fees and Waiving
Student Fees cost
component**

For the audit period, the district calculated average productive hourly rates separately for employees involved in calculating and collecting enrollment fees (Activities 1 through 6) and for employees involved in waiving student fees (Activities 7 through 12). However, the district overstated the average productive hourly rates in its claims for the audit period.

The district calculated its average productive hourly rates using a straight average methodology, including staff in its calculations that did not perform the reimbursable activities and excluding some staff that did perform the reimbursable activities. In addition, the district did not weigh the involvement of the various employee classifications that performed the reimbursable activities. Instead, all employee classifications were weighted at the same level, as if they all performed the reimbursable activities to the same extent. For example, by calculating average productive hourly rates using a straight average methodology, the involvement of Supervisors was weighted at the same level as district staff that actually performed the bulk of the reimbursable activities.

We provided the district an opportunity to revisit the average productive hourly rates to appropriately reflect the weight of involvement for the various employee classifications that performed the reimbursable activities. However, the District Director of Fiscal Affairs objected to revisiting the claimed average productive hourly rates or providing a complete list of all staff that worked for the Admissions and Records Office, Bursar's Office, and the Financial Aid Office during the audit period. The district did not provide any additional support (e.g., staffing requirements) or guidance (e.g., weight of involvement of various employee classifications) regarding the conduct of the reimbursable activities at the different colleges throughout the audit period.

Therefore, we calculated weighted average rates based on the supporting documentation for the productive hourly rates used in the district's claims. We recalculated average productive hourly rates separately for the Admissions and Records Office and in the Bursar's Office staff and for the Financial Aid Office staff, basing our recalculations on the actual employee classifications involved in performing the reimbursable activities within each department and their level of effort. The level of effort spent by the various employee classifications was based on our discussions with district staff concerning procedures in place to conduct the reimbursable activities along with our observations of district staff performing the reimbursable activities.

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

As noted above, the district's average productive hourly rates for Calculating and Collecting Student Enrollment Fees included staff that did not perform the reimbursable activities (staff employed in the Financial Aid Office) and excluded staff that did perform the reimbursable activities. We determined that the staff excluded was employees that did not receive a time survey form. In addition, the district did not weigh the average rates by employee classification.

Instead, all employee classifications were weighted at the same level as if they performed the reimbursable activities to the same extent.

We accepted the rates that the district claimed per staff and made minor changes to the claimed rates when the supporting documentation showed different information than what was claimed. We excluded staff that did not perform the reimbursable activities for Calculating and Collecting Enrollment Fees Based on our observations of the reimbursable activities being performed; we determined the following level of involvement by district staff to perform the reimbursable activities:

- Student Hourly Staff – 45%
- Classified Salaried Staff – 50%
- Supervisory Staff – 5%

We provided the district with our analysis and attempted to engage in a dialogue with them in an effort to advise us of any issues involving the weight of involvement percentages that we calculated, in addition to any variances in the level of effort for the different colleges in the district and/or the different years during the audit period. However, the district declined to comment on our analysis or provide any additional information.

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

Fiscal Year	Enrollment Fee Collections		
	Claimed	Audited	Audit Adjustment
	Average	Average	
	Productive	Productive	
Hourly	Hourly		
	Rate	Rate	
1998-99	\$ 20.72	\$ 15.06	\$ (5.66)
1999-2000	22.65	17.23	(5.42)
2000-01	24.19	18.71	(5.48)
2001-02	23.42	18.16	(5.26)
2002-03	24.34	19.30	(5.04)
2003-04	24.45	18.75	(5.70)
2004-05	24.29	19.37	(4.92)
2005-06	29.78	24.33	(5.45)
2006-07	32.72	28.53	(4.19)
2007-08	36.61	28.51	(8.10)
2008-09	35.28	29.20	(6.08)
2009-10	37.45	27.02	(10.43)
2010-11	39.43	27.93	(11.50)

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

The district's average productive hourly rates for Waiving Student Fees also included staff that did not perform the reimbursable activities (staff employed in the Admissions and Records and Bursar's Office) and excluded staff that did perform the reimbursable activities. We determined that the staff excluded was those who did not receive a time survey form. In addition, the district did not weigh the average rate by employee classification. Instead, all employee classifications were weighted at the same level as if they performed the reimbursable activities to the same extent.

We also accepted the rates that the district claimed per staff and made minor changes to the claimed rates when the supporting documentation showed different information than what was claimed. We excluded staff that did not perform the Waiving Student Fees activities and we applied the same level of involvement as we did for collecting enrollment fees (45% for the Student Hourly staff classification, 50% for the Classified Salary classification, and 5% for the Supervisory classification). We provided the district our analysis and attempted to engage in a dialogue with them in an effort to advise us of any issues involving the weight of involvement percentages that we calculated, in addition to any variances in the level of effort for the different colleges in the district and/or the different years during the audit period. However, the district declined to comment on our analysis or provide any additional information.

The district's claims did not include any Student Hourly staff in its claims for the Waiving Student Fees costs component. The Financial Aid Director explained that the Student Hourly staff was not given the time survey forms distributed by the district's mandated cost consultant, although they perform the bulk of the reimbursable activities. The district also indicated that salaries for Student Hourly staff are paid out of a work study program (Federal program) and out of Board Financial Assistance Program (B-FAP funds). The district did not provide any additional support for the Student Hourly staff that worked in the Financial Aid Department and performed the reimbursable activities included in the Waiving Student Fees costs component.

We also noted that salary and benefit information for the current Director of Financial Aid was used in the calculation of the average productive rate for the entire audit period. However, the current Director of Financial Aid was not the Director for the entire audit period. Therefore, rates claimed for the Director of Financial Aid classification were understated. The district provided actual salaries, benefits, and productive hours worked information for the Directors employed by the district during the period of FY 1998 through FY 2007-08. We made adjustments to the productive hourly rate calculations accordingly.

The following table summarizes the changes that we made to average productive hourly rates for enrollment fee waivers activities by fiscal year:

Fiscal Year	Enrollment Fee Waivers		
	Claimed	Audited	
	Average	Average	
	Productive	Productive	Audit
Hourly	Hourly	Adjustment	
Rate	Rate		
1999-2000	\$ 20.13	\$ 12.41	\$ (7.72)
2000-01	23.45	13.51	(9.94)
2001-02	24.48	14.38	(10.10)
2002-03	24.36	14.98	(9.38)
2003-04	24.94	15.54	(9.40)
2004-05	24.17	17.00	(7.17)
2005-06	29.91	21.16	(8.75)
2006-07	31.93	21.91	(10.02)
2007-08	38.05	25.16	(12.89)
2008-09	39.52	25.75	(13.77)
2009-10	35.61	22.47	(13.14)
2010-11	39.09	25.95	(13.14)

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

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 draft audit report concludes that the District erred by not weighting the productive hourly rates for the twelve program activities. The auditor's weighting method resulted in a reduction of about one-third in the claimed average productive hourly rate for most activities. 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. The auditor requested that the District provide support or rebuttal for the auditor's weighted averages. The District declined since there is no requirement in the parameters and guidelines to use weighted productive hourly rates and no factual basis to do so was provided by the auditor.

SCO's Comment

The finding and recommendation remain unchanged.

The district states in its response that "there is no requirement in the parameters and guidelines to use weighted productive hourly rates." It was the district's choice to use an average productive hourly rate calculation, which is a methodology specified in the Controller's claiming instructions. However, the district did not properly follow the guidance contained in the claiming instructions to compute an average productive hourly rate.

The parameters and guidelines (Section V.A.1 – Claim Preparation and Submission – Salaries and Benefits) states that claimants must

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.

To comply with this requirement, the district must provide information for "each employee implementing the reimbursable activities." However, the district did not provide total wages and benefits and productive hours information for all of the employees who performed the reimbursable activities.

Furthermore, the district did not "describe the reimbursable activities performed by each employee or the number of hours devoted to each reimbursable activity performed." Instead, the district calculated straight average productive hourly rates for "Enrollment Office Staff" and "Financial Aid Office Staff," multiplied those rates by the time increments estimated by district staff for each reimbursable activity, and multiplied the total by the number of transactions with students (multiplier).

The requirement in the parameters and guidelines to describe "the hours devoted to each reimbursable activity" recognizes that employees do not perform the reimbursable activities equally. Accordingly, this methodology to claim costs takes into account the weight of involvement

in the reimbursable activities by various employee classifications. The Controller’s claiming instructions also recognizes the weight of involvement of employees in its guidance for computing average productive hourly rates.

Instead, the district used a straight average methodology, as if all “Enrollment Office Staff” and “Financial Aid Office Staff” performed the reimbursable activities to the same extent. That is not a reasonable conclusion, which is why we made adjustments to the district’s average productive hourly rate calculations.

**Other Issue—
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 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 Comment

The SCO will respond to the district’s request separately from this report.

**Other Issue—
General comment**

The district’s response included comments related to the conduct of the audit.

District’s Response

The entirety of the amounts claimed for reimbursement for each fiscal year 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.

The draft audit report states that the District’s mandate consultant and the District management advised program staff not to discuss the auditor’s methods and findings. This decision was based on our consultant’s previous experience with these types of audits and audit procedures as well as District management’s conclusion early into the audit that there could be no productive discussion concerning the auditor’s documentation standards or choice of methods, all of which

have been utilized on other audits of this mandate program at other community college districts. The standards and methods are Controller policy not subject to individual auditor discretion. These audit policies are a matter of statewide concern that can only be resolved by an incorrect reduction claim and decision by the Commission on State Mandates. However, District did respond to documentation requests whenever possible.

SCO's Comment

An external mandated cost consultant prepared the district's mandate claims for the audit period. Throughout audit fieldwork, the consultant did not provide any actual source documentation for the time required to perform any of the reimbursable activities included in the district's claims. We attempted to work with representatives of the district to the maximum extent possible during the course of the audit. As noted in the draft audit report and acknowledged by the district in its response to that report, the district's mandated cost consultant and district management advised district staff not to discuss any of the auditor's methods and findings with us. The district also acknowledges in its response their conclusion during the early stages of the audit that "there could be no productive discussion concerning the auditor's documentation standards or choice of methods." However, we believe that a number of the issues contained in our audit report could have been adequately addressed had district representatives engaged with us during the course of the audit. Instead, the district acknowledges its decision to file an incorrect reduction claim with the CSM subsequent to the issuance of our audit report rather than engage in substantive discussions with us.

Our audit was performed under generally accepted government auditing standards. Those standards require that we obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions within the context of the audit objectives. Therefore, our audit findings and conclusions are based on the audit evidence that we obtained during the fieldwork phase of the audit with minimal input from district representatives. Our audit process also includes obtaining an understanding of the claimant's policies and procedures that were followed to perform the reimbursable activities. Therefore, we believe that our audit results are based on sufficient and appropriate evidence.

**Attachment—
District's Response to
Draft Audit Report**



NORTH ORANGE COUNTY
COMMUNITY COLLEGE DISTRICT

FRED WILLIAMS
*Vice Chancellor
Finance & Facilities*

NED DOFFONEY, Ed.D.
Chancellor

July 23, 2013

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

Re: Enrollment Fee Collection and Waivers
FY 1998-99 through FY 2010-11
North Orange County Community College District

Dear Mr. Spano:

This letter is the response of the North Orange County Community College District to the draft audit report dated July 12, 2013, for the above referenced program and fiscal years transmitted by the letter from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

The entirety of the amounts claimed for reimbursement for each fiscal year 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.

The draft audit report states that the District's mandate consultant and the District management advised program staff not to discuss the auditor's methods and findings. This decision was based on our consultant's previous experience with these types of audits and audit procedures as well as District management's conclusion early into the audit that there could be no productive discussion concerning the auditor's documentation standards or choice of methods, all of which have been utilized on other audits of this mandate program at other community college districts. The standards and methods are Controller policy not subject to individual auditor discretion. These audit policies are a matter of statewide concern that can only be resolved by an incorrect

reduction claim and decision by the Commission on State Mandates. However, District staff did respond to documentation requests whenever possible.

Finding 1- Enrollment Fee Collection- Calculating and Collecting Enrollment Fees

The draft audit report states that the district claimed \$10,560,754 in salaries and benefits for the staff time to calculate and collect enrollment fees, of which \$873,378 is allowable and \$9,687,376 is unallowable. The costs are disallowed for several reasons because the audit:

- rejects the District calculation of the average staff time required to perform the 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);
- removes from the workload calculation the number of students who paid their enrollment fees online rather than in person: and,
- adjusts the average staff salary and benefit amounts used to calculate the productive hourly rates.

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. The total of the average times for the six activities ranged from 26.50 to 40.40 minutes over the audit period. 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 costs" and rejects the time estimates for four of the six activities. The audited total of the average times for the six activities ranges from 13.66 to 15.26 minutes over the audit period. This is the major source of the cost adjustment. The audit "time study" for the four activities is based on observing some of the enrollment fee collection process in the Bursar's Office. The auditor observed 178 transactions, of which 78 involved payment of enrollment fees. By comparison, the District reported about one million enrollment fee collection transactions for the audit period. For this reason, and many others, the auditor's observation process does not constitute a representative "time study" sample.

For the remaining two activities (5 and 6), which were not observed by the auditor, the average times were accepted by the auditor.

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 different categories of special admission students. Thus, there was no point for the District to dispute the findings since they are a matter of 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.

There is the related workload multiplier issue of the number of "online" (internet or phone) transactions. When this program became a mandate in FY 1998-99, there was no significant online activity, and so was not factored into the annual claims. However, District data processing staff was able to provide a reasonable estimate of the percentage of online transactions retroactive to FY 2001-02, when the Banner System was established. We also stipulated to a percentage for years prior to FY 2001-02. However, the audit does not include any replacement costs for the online fee collection process in mitigation of this adjustment.

The workload multipliers were accepted by the auditor for the remaining two activities (5 and 6).

C. Productive hourly rates

The salary and benefits productive hourly rate is multiplied by the product of the average staff time per activity and relevant workload multiplier. The draft audit concludes that the District overstated the productive hourly rates because the District did not weight the average rates for each activity. This is discussed at Finding 6.

D. Legal basis for the adjustments

The draft audit report states that the legal basis for these adjustments is the documentation standard contained in the mandate program parameters and guidelines:

"The program's 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.' ”

Thus, the nature and quality of the source documents, as perceived by the auditor, are the stated legal basis for disallowing the District time estimates, workload statistics, and productive hourly rates. It should be remembered that the parameters and guidelines were adopted January 26, 2006, which is seven years after the first fiscal year in the audit period. Regardless, by substituting its own time study for four of the activities, the Controller 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, by accepting the District's reported time and workload statistics for the remaining two 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.

Finding 2- Enrollment Fee Waivers- Procedures, Recording and Maintaining Records

The draft audit report states that the district claimed \$18,125 in salaries and benefits for the staff cost to adopt procedures, recording, and maintaining waiver records and statistics, of which \$8,591 is allowable and \$9,534 is unallowable. All of the amounts reported by the District for FY 1999-00 through FY 2009-10 were approved. The costs reported for FY 2010-11 were substantially disallowed because staff time was included for activities not related to the mandate. The District does not dispute this adjustment at this time.

Finding 3- Enrollment Fee Waivers-BOGG Waiver Process

The draft audit report states that the District claimed \$4,285,990 in salaries and benefits for the staff cost of approving or denying BOGG enrollment fee waivers, of which \$236,628 is allowable and \$4,049,361 is unallowable. This cost component is calculated in the same manner as the Enrollment Fee Collection cost component and the costs are disallowed for same reasons: average staff time required to perform the reimbursable activities; enrollment data and other workload multipliers; online transactions; and, weighted productive hourly rates.

Regarding the average activity times, the District claimed average times for the six activities ranging from 27.00 to 60.80 minutes over the audit period. The draft audit rejects the time estimates for all six activities. The audited total of the average times for the six activities is 2.6 minutes for all fiscal years. This is the

major source of the cost adjustment. The audit "time study" for the activities is based on observing 225 enrollment fee waiver process transactions in the Financial Aid Office. By comparison, the District reported about 275,000 transactions for the audit period.

For five of the six activities the workload multipliers rely upon enrollment statistics with relevant adjustment. As a matter of Controller policy, the auditor utilized data obtained from the Chancellor's Office. For the sixth activity, appeals of denied waivers, the audit concludes that this activity was not performed, and disallows the workload multiplier reported by the District. The District believes the disallowance of the sixth component is a matter of interpretation that can only be resolved by appeal to the Commission.

Adjustments similar to those made for the enrollment fee collection cost component were also made here for the percentage of online transactions and the productive hourly rates. All of these issues are a subject for the appeal.

Finding 4 - Unallowable Indirect Costs

The draft audit report states that the District claimed indirect costs of \$3,875,164, for the enrollment fee collection component and \$1,567,393, for the enrollment fee waiver component, of which \$298,408, and \$93,556, is allowable, respectively. For the thirteen years included in the audit period, the indirect cost percentage rate was adjusted for three years only, and then was modified by only .60% to 1.15% percent. Therefore, most of the disallowed indirect costs derive from the disallowed direct costs from the first three audit findings.

Another source of difference in the calculation from year-to-year is the Controller's inconsistent policy regarding whether the indirect cost rate should be based on total direct costs, or salary and benefits, or just salaries, and then whether the rate so determined should be applied to the same amounts. During the audit period, the Controller's policy changed three times.

The audit report does not state that the District's calculations are unreasonable, just that they aren't the same choice of methods as the Controller's policies and claiming instructions. There are no regulations or pertinent generally mandated methods for the calculation, so it is a matter of professional judgment. The minor difference of about 1% between the claimed amounts and audit results for the last three fiscal years indicates that District calculations are reasonable. However, I am told that 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 5 - Misstated offsetting reimbursement

The draft audit report states that the District understated offsetting reimbursements by \$50,021 for the enrollment fee collection cost component, and overstated by \$2,891,301 for the enrollment fee waiver cost component.

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 audited offsetting revenue data is based on information obtained by the auditor from the Chancellor's Office developed after the end of each fiscal year. The District and other claimants at the time the annual claims are prepared must calculate the amounts based on contemporaneous enrollment information, which would be a continuing source of minor differences.

However, the differences here are not minor. The magnitude of the offsetting revenue adjustment results from the magnitude of the disallowed activity costs in Findings 1 through 4, since the offset cannot exceed the reimbursable cost. As the amount of audited cost decreases, there is a corresponding decrease in applicable offsetting revenues. For the enrollment fee collection component, the audited offset exceeds the program cost by \$631,892. For the enrollment fee waiver component, the offset exceeds the audited program cost by \$2,897,619. If the approved program costs increases, these offsetting revenue differences will decrease in the same amount.

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

Finding 6- Overstated productive hourly rates

The draft audit report concludes that the District erred by not weighting the productive hourly rates for the twelve program activities. The auditor's weighting method resulted in a reduction of about one-third in the claimed average productive hourly rate for most activities. 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. The auditor requested that the District provide support or rebuttal for the auditor's weighted averages. The District declined

Mr. Jim Spano

July 23, 2013

since there is no requirement in the parameters and guidelines to use weighted productive hourly rates and no factual basis to do so was provided by the auditor.

Public Records Request

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

A handwritten signature in cursive script, appearing to read "Fred Williams", with a long horizontal flourish extending to the right.

Fred Williams, Vice Chancellor Finance and Facilities
North Orange County Community College District

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