



CSIS California School Information Services

April 22, 2013

Joel L. Kinnamon, Ed.D, President
College of the Desert
43-500 Monterey Avenue
Palm Desert, CA 92260

Dear President Kinnamon:

The purpose of this management letter is to provide the findings and recommendations of the Fiscal Crisis and Management Assistance Team (FCMAT) resulting from the internal control review of the College of the Desert. As agreed between FCMAT and the college, FCMAT will not provide a final report at this time; rather, this management letter will provide the findings and recommendations resulting from the on-site work conducted February 5 and 6, 2013, and subsequent analyses. Members of the study team include:

Study Team

Deborah Deal, CFE
FCMAT Fiscal Intervention Specialist
Bakersfield, CA

Julie Auvil, CPA, CGMA
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As indicated in the study agreement dated January 10, 2013, FCMAT was to perform the following:

1. The primary focus of this review is to provide the college with reasonable assurances, based on the testing performed, that adequate management and internal controls are in place for the reporting and monitoring of financial transactions, and that fraud, misappropriation of funds or other illegal activities have not occurred. Internal controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting and monitoring operations, including systems for measuring, reporting and monitoring performance. The receipt of cash and/or cash transactions, payroll, purchasing, and accounts payable are high-risk areas in which potential fraud issues such as nonexistent employees or vendors, or misappropriation of assets including cash, may be detected. Specific review objectives will include evaluation of policies, procedures, internal controls and transactions performed by the college.

FCMAT

Joel D. Montero, Chief Executive Officer

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The team will sample test data from the current and one prior fiscal years to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on sample selections; it will not include all transactions and records for this period. Sample testing and review results are intended to provide reasonable but no absolute assurance regarding the accuracy of the college's transactions and financial activity to accomplish the following:

- Prevent internal controls from being overridden by management.
- Ensure ongoing state and federal compliance.
- Provide assurance to management that the internal control system is sound.
- Help identify and correct inefficient processes.
- Ensure that employees are aware of the proper internal control expectations.

Although deficiencies in many areas may compromise the effectiveness of the college's internal control structure, the following are the most common:

- Segregation of Duties: Separating responsibility for physical custody of an asset from the related recordkeeping is a critical control.
- Access to Assets: Internal controls should provide safeguards for physical objects, restricted information, critical forms, and updates to applications.
- Knowledge of Policies: The college is not a static environment, and new policies and revisions are a constant. College policies and procedures are available electronically. Administrators must stay abreast of policy changes and understand their responsibilities.
- Fiscal Conduct: If any employee knows or suspects that other college employees are engaged in theft, fraud, embezzlement, fiscal misconduct or violation of college financial policies, it is their responsibility to immediately notify the president or the president's authorized designee.
- Control Overrides: Exceptions to established policies are sometimes necessary to accomplish specific tasks, but can pose a significant risk if not effectively monitored and limited.

2. The team will evaluate the college's internal control structure, policies and procedures to test transactions and reporting processes, and will provide recommendations for improvements if needed.

A. Evaluation of the Existing Internal Control Structure:

1. Determine if adequate procedures are in place to safeguard assets, including physical objects, college data and intellectual property.
2. Evaluate the reliability and integrity of information used for internal management decisions and external agency reports.
3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and whether signature authority is delegated only to authorized employees.
4. Determine whether proper segregation of duties exists. The team will evaluate personnel, payroll, accounts payable and cash transactions, and will do the following:
 - i. Review the authorization process for assessing class fees
 - ii. Determine if protective measures are in place for safeguarding college assets, processes and data.

- iii. Determine whether safe combinations are changed periodically and anytime a staff member who knows the combination terminates employment.
- B. Evaluation of Policies and Procedures:
 1. Review compliance with college policies and procedures including, but not limited to, those in the areas of human resources, finance, purchasing, granting agencies, and state and federal government.
 2. Review document and records retention procedures to determine whether the college provides reasonable assurance that asset records are safeguarded and transactions are correctly recorded.
- C. Reporting Processes:
 1. Evaluate monitoring and verify that controls are operating properly.
 2. Evaluate controls that prevent management from overriding internal controls to prevent misappropriation of funds. Determine if the organizational charts show lines of authority.
 3. Evaluate whether clearly established lines of authority and responsibility exist within and between departments for proper review and reporting purposes.
3. California community colleges receive more than 80% of their unrestricted funding from state apportionment paid through the California Community College Chancellor's (CCCCO's) office, and funding is based on students who are in class on census day, which is typically the first day of the fourth week of classes. Education Code Section 84501 and California Code of Regulations Title 5, 58003, 58006, 58012, 58023 and 58782 govern how apportionment funding is calculated for daily and weekly student attendance. The team will review attendance accounting procedures for full-time equivalent students (FTES), including forms CCFS-320, CCFS-321, CCFS-320F Addendum to Part I, Supplemental Information CDCP Noncredit FTES, prepared by the CCCCCO for state apportionment reports, and any supporting work papers or electronic files. The review shall include findings and recommendations to determine if the college district claimed the correct state apportionment funds for 2011-12 and 2012-13.

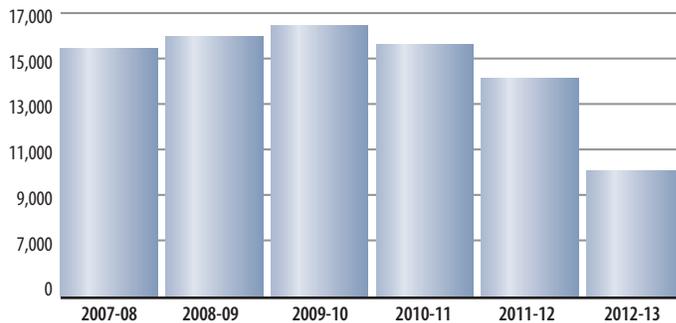
Background

College of the Desert is public community college founded in 1958 and now has four locations in Riverside County. The main campus is in Palm Desert, with other campus sites in Palm Springs, Eastern Valley Center/Mecca Thermal, and Indio.

Based on the fall 2012 headcount, the college has 10,099 students from both desert and mountain communities. More than 74% of students recorded on census day are between the ages of 18 and 29, with another 23% over 30 years of age. The college covers a vast area, with cities served including Palm Springs, Palm Desert, Coachella, Mecca, Thermal, Desert Shores, North Shore, Indio, Bermuda Dunes, La Quinta, Indian Wells, Rancho Mirage, Cathedral City, Thousand Palms, Desert Hot Springs, Sky Valley, Cabazon, Whitewater, Anza, Aguanga, Mountain Center, Pinyon Pines and Idyllwild.

Since the 2009-10 fiscal year, the college has experienced declining student headcounts and enrollments. The chart below shows that the decline was -12.2% from 2010-11 to 2011-12, and another -26.5% from 2011-12 to this fiscal year.

**College of the Desert
All Student Headcount
2007-08 through 2012-13**



With a Hispanic population of 65.4%, the college is a federally recognized Hispanic Serving Institution since 2000, for which it received two grants totalling more than \$6 million to continue supporting students in the Coachella Valley.

Partners of the college district promote educational excellence and provide scholarships, financial support for facilities, underwrite programs that lack other funding sources, organize events, and encourage community involvement. These partners include the Alumni Association; College of the Desert Foundation; College of the Desert Foundation Auxiliary; President's Circle and Gold Partners; and Friends of the Library.

Over the last two fiscal years, the college has had turnover in several key administrative positions including the college presidency. Of the three vice president positions, one is filled with an interim administrator, and two are vacant, giving the board of trustees the opportunity to evaluate the effectiveness of the existing organizational structure. As the organizational structure changes, the internal control structure must be realigned accordingly.

The college recently was the subject of an extraordinary audit that revealed deficiencies in the internal control structure. As a result of the audit findings specifically in the area of attendance accounting, the college initiated a full review of the existing internal control structure, policies and procedures and reporting systems.

At this time, a full review of the internal control structure would not provide meaningful results should the organizational structure change. In consultation with the college president, it was decided that the team would limit this review to significant internal control observations and provide a full report of the findings and recommendations for the attendance apportionment reports for the current and prior fiscal years.

Organizational Structure

The current president began his tenure with College of the Desert in July 2012. One executive director for human resources and three vice presidents report to the president, and the deans of each college school report to the vice presidents. However, the executive director of human resources and three vice president positions are either vacant or filled with interims while the college conducts its search for permanent employees. This leaves the president as the direct supervisor to five academic deans.

The lack of a vice president position to oversee business services is of immediate concern. A fully staffed business services department for a college of this size should be led by a vice president, with a director of fiscal services and one or two lower management positions such as budget or accounting managers. Current business department staffing consists of a director of fiscal services and several account clerks.

As the only administrative staff member in the business department, the director oversees several auxiliary services: warehousing; purchasing; accounts payable; payroll; copy center; bursar's office; mail services; bond accounting; and risk management. The college cannot achieve proper segregation of duties or effective oversight with this configuration.

The team observed the following internal control deficiencies during fieldwork:

- The bursar's office is in a separate location with no direct supervision, yet one employee with discipline issues has access to cash.
- Few business office staff have the requisite understanding and background to perform basic general ledger accounting transactions.
- Department budgets are created by the director and one other staff member, with little to no input from deans or other administrators.
- Numerous grants are not properly managed by the business office. Several managers report keeping separate accounting records to manage grant funds and keep accurate account balances.
- Business office financial software takes several weeks to update, so some departments hire personnel for grant accounting and reporting to meet stringent grant timeline requirements.
- Fiscal checks and balances are lacking in the business office, and in departments that interface with the business office.
- The college lacks protocols, policies and procedures for budget development, budget monitoring, and requests for financial information.
- Accountability is lacking throughout the system.

The college has contracted with a consultant to develop and implement an enrollment management plan and assist with many of these issues. That work is in its preliminary stages. Once it is completed, FCMAT can assist with identifying, establishing and implementing internal controls.

Recommendation

The college should:

1. Reconfigure administrative staffing in the business services department to ensure proper oversight and internal controls.

Foundation

The College of the Desert Foundation is a nonprofit auxiliary organization of the college. It was formed in 1983 to enhance the quality of education at the college through fundraising for program support, facilities and student scholarships.

The foundation has a board of directors and committees comprised of local citizens and community leaders. The executive director is responsible for the day-to-day operations. Together the college president and executive director establish priorities to meet the needs of the institution.

The most recent audited financial statements as of June 30, 2012 show that the foundation's net assets total \$22.8 million, of which \$16.5 million is permanently restricted. Permanently restricted assets require the principal to be invested and only investment earnings used in accordance with any other donor constraints.

The executive director and the college president are relatively new in their positions. The executive director previously reported to the foundation's board of directors, who were appointed by the college president. Now the executive director reports directly to the college president. This change has strained the relationship between the college and its foundation leadership.

The two organizations' priorities have not been clearly established under the new leadership, which has affected departments that rely on the financial support generated by the foundation.

Several departments that rely on annual donations to support their programs express frustration that donations intended for the current year have been withheld by the foundation pending a full accounting from the business office on how funds will be used. Other complaints relate to the lack of notification of donation amounts and the availability of those funds for use.

Foundation leadership expressed uncertainties regarding how foundation activities and fundraising efforts align and support the goals of the college without a coordinated effort and list of priorities.

Internal control procedures for the management and transfer of donations should be established immediately while administrative differences are resolved.

State Apportionment Reporting

On November 28, 2012, FCMAT issued an extraordinary audit report to the Desert Community College District to "provide the Community College Chancellor's Office with reasonable assurances based on the testing performed that adequate management controls are in place regarding the district's attendance reporting and monitoring and that fraud, misappropriation of funds or other illegal activities have not occurred" (FCMAT Extraordinary Audit Report, November 28, 2012). The team at that time sampled test data from the 2003-04 to 2009-10 fiscal years to make its findings and recommendations.

Based on the results of the Extraordinary Audit, the college requested FCMAT to independently review the CCFS-320 Attendance Report for the First Period (P1) submitted to the Chancellor's Office in January 2013 to determine accuracy and compliance with regulatory standards.

The dean of enrollment services provided supporting documentation including attendance reports, financial records, agreed-upon procedures, internal records including meeting agendas and minutes, and other documentation from third party sources. FCMAT independently verified these documents for accuracy and compliance with state regulations.

Through a series of working meetings with college personnel and the examination of documents and independent verification by FCMAT, it was determined that the CCFS-320 Attendance Report for the P1 reporting period contained no errors of statistical significance, although minor corrections will need to be submitted in the Second Period (P2) report.

California community colleges receive more than 80% of their unrestricted funding from state apportionment paid through the Chancellor's Office, and funding is primarily driven by the full-time equivalent student (FTES) workload measure. FTES is not a "headcount," but is the equivalent of 525 hours of student instruction per each FTES.

Title 5, Section 58003.1 governs the calculation of FTES under four different attendance accounting formulas:

1. Positive attendance (actual attendance generated from each class meeting)
2. Weekly census
3. Daily census
4. Alternative attendance accounting procedure for independent study/work experience and distance education courses not computed using other basic procedures

Each method of attendance accounting calculates a number of FTES, or workload in contact hours, based on the number of students enrolled and the length of the course, divided by 525. Under Title 5, Section 58003.1(a), the attendance accounting procedure applied is based on the type of course (credit, noncredit, independent study, etc.), the way the course is scheduled, and the length of the course.

Calculation

Most FTES reported by California community college districts are generated by the weekly census method for courses that are scheduled in the primary term, either quarter or semester, depending on the academic calendar configuration. Courses that are scheduled as weekly census must be scheduled the same number of hours each week within the primary term. The primary term typically is 35 weeks, but in some instances, there are more or fewer weeks than 35.

Funding for census-based courses is calculated on students that are actively enrolled as of “census day,” which is Monday of the week nearest to one-fifth of the length of the primary terms (i.e., the third or fourth week depending on the length of the primary term). Education Code 84501 and California Code of Regulations Title 5, Sections 58003.1, 58004, 58006, 58012, 58020 and 58023 govern how apportionment funding is calculated for daily and weekly student attendance.

Reporting

To calculate FTES under the weekly census procedure, the number of actively enrolled students in each course is multiplied by the number of weekly scheduled hours as of the census day, then multiplied by a term length multiplier (TLM) of 17.5 (the TLM could be higher or lower if the academic year has been compressed) and divided by 525. This calculation is made for all weekly census courses for each primary term. For College of the Desert, the term length multiplier is 16.4

Title 5, Section 58003.4 states that community colleges must report their attendance three times per year: a P1 report for July 1 through December 31, a P2 report for July 1 through April 15, and an annual report for July 1 through June 30. The P1 report for the 2012-13 academic year was examined in this letter.

COD First Period CCFS-320 Attendance Report 2012-13

The CCFS-320 Attendance Report submitted for the P1 report in January 2013 was determined to be accurate in all material aspects, with only minor adjustments as noted below. These adjustments should be submitted on the P2 report for 2012-13.

Excel documents provided and examined include the following:

1. Fall 2012 Weekly Student Contact Hour (WSCH) courses
2. Spring 2013 WSCH courses
3. Fall 2012 Daily Student Contact Hour (DSCH) courses
4. Spring 2013 DSCH courses
5. Fall 2012 Positive Attendance credit courses
6. Spring 2013 Positive Attendance credit courses
7. Fall 2012 Positive Attendance noncredit courses
8. Fall 2012 Independent Study daily courses

Datatel system reports provided by the college included:

320 Section Summary

320 District Summary Report

FCMAT downloaded the following reports from the Chancellor's Office website:

- California Community Colleges 2012-2013 Apportionment Attendance Report for College of the Desert for P1
- California Community Colleges 2011-2012 Apportionment Attendance Report (for College of the Desert) for the Annual Period

Data from Excel reports prepared by college staff for reporting purposes were verified for accuracy with reports produced in the Datatel reporting system and with reports the college filed with the California Community Colleges Chancellor's Office. A random sample of courses listed in Datatel system was conducted to verify that the courses correlated with actual class hours as mandated by education code (additional detailed analysis is provided later in this letter).

An analysis of the annualizer calculation used by the college was compared to reports generated by the Datatel system. One discrepancy was found. For the P2 report, the annualizer factor in Part VII of Section VIII of the CCFS-320 Apportionment Attendance Report should be 0.00 instead of 1.8886 as reported in the P1 report.

Two outstanding issues need official clarification from the Chancellor's Office. The dean of enrollment has been in contact with the Chancellor's Office to provide insight and background information. The first issue is the methodology used for faculty contact hours, and second is the verification of the assumptions used to determine the annualizer calculations. (See the Subsequent Events section at the end of this letter.)

Recommendations

The college should:

1. Correct the annualizer figure in Part VII of Section VIII in the 320 report from 1.8886 to 0.00 on the P2 report.
2. Receive official clarification from the Chancellor's Office on the two matters pertaining to faculty contact hours and annualizer assumptions, and make any recommended changes. ****Note:** College of the Desert received official clarification on faculty contact hours with recommended changes.

Variance Analysis

FCMAT performed a trend analysis to determine if any significant variance existed from 2011-12 to 2012-13. This was done to determine if the data is reasonable and consistently reported, and, if not, to determine the cause of the variance.

Documents provided and examined included the following:

- California Community Colleges 2012-2013 Apportionment Attendance Report for College of the Desert for P1
- California Community Colleges 2011-2012 Apportionment Attendance Report (for College of the Desert) for the Annual Period
- College of the Desert-provided variance analysis Excel spreadsheet

- Supporting emails from the dean of enrollment explaining variances
- College of the Desert-provided Academic Senate Curriculum Committee Minutes from April 19, 2012
- College of the Desert-provided Attachments A and B for Academic Senate Curriculum Committee meeting from April 19, 2012
- College of the Desert-provided Academic Senate Curriculum committee agenda for April 19, 2012 meeting

FCMAT conducted a variance analysis of FTES from 2011-12 and compared those figures to the attendance figures the college reported for 2012-13 to determine if variances existed. The results were verified by the dean of enrollment services. The dean provided explanation for the variances along with supporting documentation.

Variance Report Analysis, 2011-2012 to 2012-2013

	COD Annual Apportionment Attendance 2011-2012* (Factored FTES)	COD PI Report 2012-13 Filed January 2013** (Factored FTES)	Variance Change from 2011-12 to 2012-13
A. Summer Intersession 2011			
1. Noncredit (Parts IV.A.1. + VII.A.3.)	50.25	43.89	-12.7%
2. Credit (Parts III.A.1. + IVA.1. + VI.A.1.)	300.58	331.33	10.2%
B. Summer Intersession 2012 - prior to July 1, 2012			
1. Noncredit (Parts IV.B.1. + VII.B.3.)	0	0	
2. Credit (Parts III.B.1. + IV.B.2. + VI.B.1.)	0.07	0	-100.0%
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses (a) Weekly Census Contact Hours (Part II.)	5,662.65	5,409.32	-4.5%
(b) Daily Census Contact Hours (Part III.)	334.31	353.05	5.6%
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit (Part IV.C.)	423.28	229.92	-45.7%
(b) Credit (Part IV.D.)	207.02	208.64	0.8%
3. Alternative Attendance Accounting Procedure			
(a) Weekly Census Procedure Courses (Part V.) (Credit)	553.47	461.22	-16.7%
(b) Daily Census Procedure Courses (Part VI.) (Credit)	30.06	17.22	-42.7%
c) Noncredit Independent Study/Distance Education Courses (Part VII.C.)	0	0	
D. Total FTES	7,561.69	7,054.59	-6.7%

**Source: Chancellor's Office COD Certification 2011-12 Apportionment Attendance Report Annual Period. Certified: July 2012.*

***Source: Chancellor's Office COD Certification 2012-13 Apportionment Attendance Report P1. Certified: January 2013.*

Explanations for variances by the dean of enrollment:

Section A.1: The -12.7% variance is the result of the conversion of several courses to fee-based including Literacy, and non-credit English as a Second Language level I and II courses. This was corrected by the college in 2012-13 and will be discussed in greater detail later in this letter.

Section B.2: The variance of -100.0% exists because the summer 2013 academic courses have not yet been finalized and loaded into the student information system.

Section C.1: The variance of -4.5% is due to a reduction in the FTES base funding as the result of incorrect attendance along with a reduction of several sections by the college administration.

Section C.2: The variance of -45.7% is the result of the conversion of several courses to fee-based including Literacy, and noncredit English as a Second Language level I and II courses. This was corrected by the college in 2012-13 and will be discussed in greater detail later in this letter.

Section C.3: The variance of -16.7% is the result of faculty decisions to eliminate online courses in Math 040, Math 010 and Math 014 in spring 2012. Extensive documentation was provided to support this variance. These online courses generated 81.06 FTES. According to staff, online courses were not offered for fall 2012 or spring 2013.

Section C.3.b: The variance of -42.7% exists because the summer 2013 academic courses have not yet been finalized and loaded into the student information system.

The college administration should evaluate the loss of funding when reducing courses against the benefits of reduced costs in operations prior to making final decisions that may affect the district's eligibility to qualify for medium school size funding. The college receives a basic allocation threshold based on its size of more than 9,236. Since the head count has dropped significantly to 10,099, further reductions in course offerings could jeopardize this funding level.

Recommendation

The college should:

1. Use the services of its enrollment management consultant to understand the full financial and FTES reporting ramifications of any academic, budgetary, or other decisions so the decision that most benefits the district is made.

Sampling of Datatel Records to Determine Accuracy of Schedule Hours Reported for Attendance

FCMAT was requested to test whether the Datatel system was properly programmed to collect student contact hours instead of catalog hours for 2011-12 and 2012-13 as required by state regulations.

Documents provided and examined include:

- Datatel report showing all courses offered in summer and fall 2011 and spring 2012.
- Datatel screenshots for Weekly Student Contact Hours (WSCH) in sampling groups as noted below.

All WSCH courses for fall 2011 and spring 2012 were examined by college staff. A random sample of 20% was selected by the dean of enrollment services and independently verified by FCMAT. WSCH is a measurement of the number of students enrolled in a course multiplied by the number of hours the course meets in one week. If 20 students attend a course that meets six hours per week, the WSCH is 120.

The random sample commenced with the sixth section offered and took every fifth section after that. There were 1,251 WSCH sections offered; therefore, 250 WSCH sections were examined to validate that actual contact hours were used. A table identifying the course selections that were examined for fall 2011 and spring 2012 is attached as part of Appendix A to this letter. Some sections are offered several times per week.

This internal audit was conducted by the dean of enrollment services and verified through screen shots by the team to ensure that actual student contact hours were used in reporting. No exceptions were found in the sampling.

A test of DSCH courses for fall 2011 and spring 2012 were examined by college staff, and again a random sample of 20% was selected by the dean of enrollment services and independently verified by FCMAT. DSCH is a procedure applied to any credit course scheduled to meet for at least five or more days, for the same number of hours for each scheduled day, but not in exact alignment with the primary term. Typical courses that meet this definition are independent study and work experience. DSCH is calculated on a course-to-course basis. Some sections are offered several times per week.

The same methodology was used for the random sample. There were 205 DSCH sections offered; therefore, 33 DSCH sections were examined to validate that actual contact hours were used. The process started with the sixth section on the list and took every fifth section after that. The table identifying the course selections that were examined for fall 2011 and spring 2012 is attached as part of Appendix A to this report.

The random testing indicated no exceptions.

Conversion of Noncredit ESL and Reactivation of Noncredit Courses

Two significant variances were identified during the testing comparing FTES between 2011-12 and 2012-13. Large variances denoted in Sections A.1 and C.2 resulted from the elimination of the following courses: Literacy and Level I, Literacy II, in Noncredit ESL. These courses were converted to a fee-based option. State regulations require these courses to be offered as noncredit; therefore, the college administration was immediately notified by FCMAT. The courses were reactivated as noncredit through the Academic Senate Curriculum Committee process.

The college provided a timeline to FCMAT, college administrators, and the Curriculum Committee for quickly resolving this issue. Approval was expected in March 2013, with formal notification to the Chancellor's Office. This item was posted on the Curriculum Committee agenda for February 28, 2013.

Documents provided and examined include the following:

- Timeline provided to the Academic Senate Curriculum Committee on February 28, 2013 by college administration pertaining to conversion of non-credit ESL classes to fee-based model.
- Education Code 78300, Section 2.3 of the Student Fee Handbook along with related explanatory materials from the Chancellor's Office.
- Academic Senate Curriculum Committee agenda for its February 28, 2013 meeting.

FCMAT examined the state regulations pertaining to fee-based courses and determined that the college acted appropriately in correcting non-credit according to state regulations. The governing board has approved the changes effective March 15, 2013..

Recommendations

The college should:

1. Ensure that its Board of Trustees approves the conversion (Completed).
2. Notify the Chancellor's Office of the approval (Chancellor's Office notified on March 15, 2013. We have yet to receive notification from the Chancellor's Office.).
3. Ensure that these courses are recorded correctly in the future.

Subsequent Events

The College of the Desert needed to verify two outstanding matters with the Chancellor's Office, the results of which would necessitate a correction on the P2 attendance report filed after April 15, 2013, if necessary. FCMAT notified the college president of these matters in writing prior to completing this letter.

The first issue for clarification is the methodology used for faculty contact hours instructional hours, and second is the verification of the assumptions used to determine the annualizer calculations.

The Chancellor's Office recommends that the college update the Total Hours of Instruction previously reported on its P2 attendance report. This update may have fiscal implications, the amount and extent of which are unknown. FCMAT recommends that the college make the change recommended by the Chancellor's Office, make the necessary corrections to the P2 report and calculate its fiscal implication.

The Chancellor's Office has confirmed that the annualizer formula used in the college's calculations is an acceptable methodology.

FCMAT would like to thank the college and administration for their cooperation and assistance during the fieldwork. This management letter serves as the final report, and the request for a review of the attendance accounting procedures, including filed reports to date with the Chancellor's Office, will be closed. If you have any questions or require additional information, please contact me at (661) 802-0228.

Sincerely,

A handwritten signature in black ink, appearing to read "Deborah Deal". The signature is stylized with large, overlapping loops and a long horizontal flourish at the bottom.

Deborah Deal, CFE

Fiscal Intervention Specialist

Appendix A – Random Sampling

Random Sampling for Proper WSCH Reporting Fall 2011 and Spring 2012

Fall 2011	Spring 2012
0164	3771
0122	1195
0044	1283
0008	1521
3788	1395
0436	1509
0670	1507
0708	2003
0166	6547
	2531
	0647
	1935
	3515
	6517
	6581
	6881
	3257
	3281
	1957
	6233

Random Sampling for Proper DSCH Reporting Summer 2011, Fall 2011 and Spring 2012

DSCH Courses Selected for Testing

2660, 0340, 0236, 0640, 0598,

0466, 0232, 0326, 2325, 2357,

8027, 2309, 2323, 8041, 2327,

6313, 0147, 2076, 6232, 0856,

3282, 2474, 2518, 2530, 2482,

6057, 0224, 2201, 2209, 6651,

3271, 2335, 2345

Appendix B – Study Agreement



CSIS California School Information Services

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM STUDY AGREEMENT January 10, 2013

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the College of the Desert, hereinafter referred to as the college, mutually agree as follows:

1. BASIS OF AGREEMENT

The team provides a variety of services to school districts and county offices of education upon request. The college has requested assign professionals to study specific aspects of the college's operations. These professionals may include staff of the team, county offices of education, the California State Department of Education, school districts, or private contractors. All work shall be performed in accordance with the terms and conditions of this agreement.

2. SCOPE OF THE WORK

A. Scope and Objectives of the Study

The scope and objectives of this study are as follows:

The College of the Desert is requesting that the team conduct an internal control review. Internal controls are the foundation of sound financial management to help the college achieve its objectives while protecting it from material weaknesses, serious errors and potential fraud.

1. The primary focus of this review is to provide the college with reasonable assurances, based on the testing performed, that adequate management and internal controls are in place for the reporting and monitoring of financial transactions, and that fraud, misappropriation of funds or other illegal activities have not occurred. Internal controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting and monitoring performance. The receipt of cash and/or cash transactions, payroll, purchasing, and accounts payable are high-risk areas in which potential fraud issues such as nonexistent employees or vendors, or misappropriation of assets

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- Ensure that employees are aware of the proper internal control expectations.

Although deficiencies in many areas may compromise the effectiveness of the college's internal control structure, the following are the most common:

- Segregation of duties: Separating responsibility for physical custody of an asset from the related recordkeeping is a critical control.
- Access to Assets: Internal controls should provide safeguards for physical objects, restricted information, critical forms, and updates to applications.
- Knowledge of Policies: The college is not a static environment, and new policies and revisions are a constant. College policies and procedures are available electronically. Administrators must stay abreast of policy changes and understand their responsibilities.
- Fiscal Conduct: If any employee knows or suspects that other college employees are engaged in theft, fraud, embezzlement, fiscal misconduct or violation of college financial policies, it is their responsibility to immediately notify the president or the president's authorized designee.
- Control Overrides: Exceptions to established policies are sometimes necessary to accomplish specific tasks, but can pose a significant risk if not effectively monitored and limited.

3. The team will evaluate the college's internal control structure, policies and procedures to test transactions and reporting processes, and will provide recommendations for improvements if needed.
 - A. Evaluation of the existing internal control structure:
 1. Determine if adequate procedures are in place to safeguard assets, including physical objects, college data and intellectual property.
 2. Evaluate the reliability and integrity of information used for internal management decisions and external agency reports.
 3. Determine if authorization procedures are appropriate and consistently followed. Review administrator and manager approvals and whether signature authority is delegated only to authorized employees.
 4. Determine whether proper segregation of duties exists. The team will evaluate personnel, payroll, accounts payable and cash transactions, and will do the following:
 - i. Review the authorization process for assessing class fees
 - ii. Determine if protective measures are in place for safeguarding college assets, processes and data.
 - iii. Determine whether safe combinations are changed periodically and anytime a staff member who knows the combination terminates employment.
 - B. Evaluation of Policies and Procedures:
 1. Review compliance with college policies and procedures including, but not limited to, those in the areas of human resources, finance, purchasing, granting agencies, and state and federal government. .
 2. Review document and records retention procedures to determine whether the college provides reasonable assurance that asset records are safeguarded and transactions are correctly recorded.
 - C. Reporting Processes:
 1. Evaluate monitoring and verify that controls are operating properly.
 2. Evaluate controls that prevent management from overriding internal controls to prevent misappropriation of funds. Determine if the organizational charts show lines of authority.
 3. Evaluate whether clearly established lines of authority and responsibility exist within and between departments for proper review and reporting purposes.

3. California community colleges receive more than 80% of their unrestricted funding from state apportionment paid through the California Community College Chancellor's (CCCCO's) office, and funding is based

on students who are in class on census day, which is typically the first day of the fourth week of classes. Education Code section 84501 and California Code of Regulations Title 5§, 58003, 58006, 58012, 58023 and 58782 govern how apportionment funding is calculated for daily and weekly student attendance. The team will review attendance accounting procedures for full-time equivalent students (FTES), including forms CCFS-320, CCFS-321, CCFS- 320F Addendum to Part I, Supplemental Information CDCP Noncredit FTES, prepared by the CCCCCO for state apportionment reports, and any supporting work papers or electronic files. The review shall include findings and recommendations to determine if the college district claimed the correct state apportionment funds for 2011-12 and 2012-13.

B. Services and Products to be Provided

1. Orientation Meeting - The team will conduct an orientation session at the district to brief district's management and supervisory personnel on the team's procedures and the purpose and schedule of the study.
2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary.
3. Exit Report - The team will hold an exit meeting at the conclusion of the on-site review to inform the district of significant findings and recommendations to that point.
4. Exit Letter - The team will issue an exit letter approximately 10 days after the exit meeting that summarizes any critical findings.
5. Draft Reports - Electronic copies of a preliminary draft report will be delivered to the college's administrators for review and comment.
6. Final Report - Electronic copies of the final report will be delivered to the district's administration following completion of the review. Printed copies are available by contacting the FCMAT office.
7. Follow-Up Support – If requested, FCMAT will return to the college at no cost six months after completion of the study to assess the district's progress in implementing the recommendations in the report. The status of the college's implementation will be documented in a FCMAT management letter provided to the college.

3. PROJECT PERSONNEL

The study team will be supervised by Anthony L. Bridges, CFE, Deputy Executive Officer, Fiscal Crisis and Management Assistance Team, Kern County Superintendent of Schools Office. The study team may also include the following individuals:

- | | |
|----------------------|--|
| A. Deborah Deal, CFE | FCMAT Fiscal Intervention Specialist, Project Lead |
| B. Julie Auvil, CPA | FCMAT Fiscal Intervention Specialist |
| C. Reagan Romali | FCMAT Consultant |

Other equally qualified staff or consultants will be substituted in the event one of the individuals above is unable to participate in the study.

4. PROJECT COSTS

The cost for studies requested pursuant to E.C. 42127.8(d)(1) shall be:

- A. \$500.00 per day for each team member while on site, conducting fieldwork at other locations, preparing and presenting reports, or participating in meetings. The cost of independent consultants will be billed at the actual daily rate based on the provisions of Education Code section 84041.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc.
- C. The district will be invoiced at actual costs, with 50% of the estimated cost due following the completion of the on-site review and the remaining amount due upon acceptance of the final report by the district.

Based on the elements noted in section 2 A, the total cost of the study is estimated at \$22,000.

- D. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT's services are payable to Kern County Superintendent of Schools - Administrative Agent.

5. RESPONSIBILITIES OF THE DISTRICT

- A. The district will provide office and conference room space while on-site reviews are in progress.
- B. The district will provide the following (if requested):
 - 1. A map of the local area.
 - 2. Policies, regulations and prior reports that address items in the study scope.

3. Current or proposed organizational charts.
 4. Current and two (2) prior years' audit reports.
Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT in electronic format. Documents available only in hard copy should be scanned by the college and sent to FCMAT in electronic format.
 5. All documents should be provided in advance of field work; any delay in the receipt of the requested documentation may affect the start date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's SharePoint document repository, to which the college shall upload all requested documents.
- C. The district's administration will review a preliminary draft of the report resulting from the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

6. **PROJECT SCHEDULE**

The following tentative schedule outlines the planned completion dates for different phases of the study:

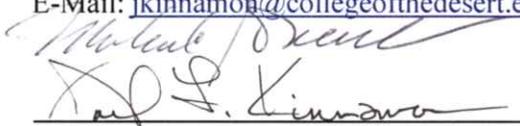
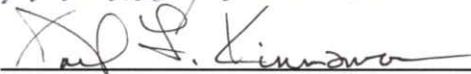
<i>Orientation:</i>	<i>January/February, 2013</i>
<i>Staff Interviews:</i>	<i>to be determined</i>
<i>Exit Meeting:</i>	<i>to be determined</i>
<i>Preliminary Report Submitted:</i>	<i>to be determined</i>
<i>Final Report Submitted:</i>	<i>to be determined</i>
<i>Board Presentation:</i>	<i>to be determined, if requested</i>
<i>Follow-Up Support:</i>	<i>if requested</i>

7. **CONTACT PERSON**

Name of contact person: Joel Kinnamon, Superintendent/President

Telephone: (760) 773-2500 FAX: _____

E-Mail: jkinnamon@collegeofthedesert.edu

 1-18-13
 1-18-13
Joel Kinnamon, Superintendent/President Date
College of the Desert

 January 10, 2013
Anthony L. Bridges, CFE Date
Deputy Executive Officer
Fiscal Crisis and Management Assistance Team