

January 11, 2017

Mario Rodriguez, Vice Chancellor
California Community Colleges Chancellor's Office
1102 Q Street
Sacramento, CA 95811

Vice Chancellor Rodriguez:

The purpose of this management letter is to provide findings and recommendations to the California Community Colleges Chancellor's Office (CCCCO) regarding specific operations and functions of the State Center Community College District (the district).

The district's chancellor contacted the CCCCCO and requested assistance in reviewing specific district operations based on several public comments and written communications. In October 2016, the CCCCCO and FCMAT entered into a study agreement for FCMAT to conduct the review. The scope of work specified in the study agreement was as follows:

1. Perform review and analysis of local bond measures, reconciliation, accounting requirements consistent with Board policy, bond oversight guidelines and statutory authority.
2. Perform review and analysis of board travel consistent with district policy and statutory authority.
3. Perform review and analysis of revisions to the board-approved budget consistent with district policy and statutory authority.
4. Perform review and make recommendations related to communication, relationships and roles in the district between the governing board and the chancellor.

FCMAT spent two days at the district meeting with staff, touring campuses, attending a board meeting, and reviewing district operating procedures and documents. District board policies, administrative regulations, board meeting minutes and other online documents were also reviewed, as well as district audits, including both financial and performance audits for the local Proposition 39 bond program. FCMAT also exchanged numerous emails with district administrators to obtain clarification and additional information. This letter is the result of FCMAT's review.

FCMAT

Joel D. Montero, Chief Executive Officer

1300 17th Street - CITY CENTRE, Bakersfield, CA 93301-4533 • Telephone 661-636-4611 • Fax 661-636-4647
755 Baywood Drive, 2nd Floor, Petaluma, CA 94954 • Telephone: 707-775-2850 • Fax: 661-636-4647 • www.fcmat.org
Administrative Agent: Christine L. Frazier - Office of Kern County Superintendent of Schools

Findings

The district is a well-managed and fiscally stable California community college district. This finding is based on a comparison of various metrics, including ending fund balances and compensation percentages, with eight other medium-sized multicollge districts with centers. FCMAT also examined audits and budget-to-actual reports for multiple years as well as accreditation materials from the Accrediting Commission for Community and Junior Colleges (ACCJC). The core of the district's fiscal and administrative services leadership is stable and experienced, and the business office at each of the district's three campuses has a compliance auditor. The annual audits have been fully compliant with Education Code (EC) Sections 84030, 84040, and 84040.5; Title 5 Section 59102; the *Budget and Accounting Manual* (BAM); and the CCCCO's *Contracted District Audit Manual*.

Leading up to the November 2016 election, several questions were raised about the district's business and administrative practices. FCMAT's review found that although the district's board policies and administrative regulations are based on the Community College League of California's (CCLC's) model policy and procedures service, several policies, regulations and procedures related to business practices, budget transfers and delegation of authority are incongruent with current interpretations and accepted application of the Education Code and Title 5. In addition, policies and procedures lack adequate detail and have not been regularly reviewed, evaluated and updated as required by Board Policy (BP) 2405, which states, "The board shall regularly review and evaluate its policies." Most of the district's Business and Fiscal Affairs 6000 series of BPs and administrative regulations (ARs) date from 2006 and 2008.

Questions were also raised about local bond measures being in compliance with Proposition 39. Based on financial audits and independent citizens' oversight committee agendas and minutes, FCMAT found that the district's administration of Measure E bond funds has been in compliance with the requirements of Proposition 39, and that the detail provided in the financial and performance audits has exceeded the Proposition 39 requirements. FCMAT verified that the State Center Community College Foundation adhered to IRS Section 501(h) in its financial support of the Measure C bond election campaign. The bond website required by Proposition 39 is being rebuilt and must be activated as soon as expenditures from the bond proceeds recommence.

FCMAT found that the last major revision of the *State Center Community College District Purchasing Handbook (Procedures, Guidelines & Regulations)* was in 2003. The handbook should be reviewed and updated, if necessary, to be in compliance with all applicable rules and regulations. In addition, Section 7.13 of the handbook needs to be updated to refer to the latest policies and procedure manual for all critical construction projects, including those funded by Proposition 39 bond proceeds.

The district lacks a comprehensive bond program policy and procedure manual. A policy and procedure manual would help ensure that all participants in the bond program know their roles and responsibilities, and would provide best practices. The district should consider including in the manual sections on the following:

- a. Establishing project budgets.
- b. Delegating authority.
- c. Selecting project development and design teams.
- d. Selecting consultants (e.g. architects, engineers, and inspectors).
- e. Public works bidding and award process.

- f. The level of board involvement (e.g., participatory, informational, approval, oversight or other).
- g. Accounting and project management.
- h. Payment processes and timelines.
- i. Participation of district staff within the parameters defined by Proposition 39.
- j. Conflict of interest.

Given the magnitude of the Proposition 39 general obligation bonds, the legal reporting and transparency requirements, and the concerns expressed by some board members concerning the use of the bond proceeds, the district should consider expanding BP and AR 6600, Capital Construction, both dated 2008, and consider including the following:

1. An acknowledgement of the general obligation bonds.
2. A commitment that any projects funded with the bond proceeds will comply with Proposition 39 and all associated legislation and regulations.
3. A requirement for progress and financial reports to the board.
4. A requirement for a comprehensive operational manual, including criteria on the processes and procedures to select consultants, how project-specific committees are formed, and how projects are prioritized.
5. Information on the board's role in the selection of ICBOC members and oversight of the bond-funded program.
6. Clarification on the board's role in approving which projects will be funded from the bond proceeds.

Another area that FCMAT reviewed pertained to board travel expenditures. Overall, these expenses appear consistent with district board policy, administrative regulations, internal procedures, statutory authority, and California community college system accepted industry standards and norms. One area needing clarification pertains to how individual board members are selected to travel and how that travel is approved. Specifically, concerns were raised on how the previous chancellor invited a number of board members to participate in two out-of-state trips with no transparent or documented process for choosing which board members were invited. Specifically, BP 2735 (dated 2003) and AR 2735 (dated 2008), Board Member Travel, should be updated to address current board members' concerns, including how individual board members are selected for travel.

To address concerns regarding whether board-approved budget revisions were consistent and complied with existing board policy, administrative regulations and statutory authority, the district must ensure that procedures and policies contain clear answers to the following four questions:

1. What revisions to the board-approved budget need to be approved by the board?

Per Education Code, Title 5 and the BAM, the governing board is to approve or adopt a budget by "major expenditure object" or "major expenditure classification," and after that budget is adopted the board must approve any revisions to those expenditure classifications. This means

that the board must approve revisions affecting any of the seven major expenditure accounts (which are discussed later), but is not required to approve changes below the major object level. For example, a budget change that moves \$100 from Object 4000, supplies, to Object 5000, other operating expense, must have board approval because it increases the Object 5000 and decreases the Object 4000 accounts. However, if any amount (\$100 or \$100,000) is moved from sub-object 4521 (supplies) to sub-object 4531 (printing), board approval is not required because the adjustments are within the same expenditure classification.

The Education Code and Title 5 also require a two-thirds vote of the board for any transfer from the general reserve (i.e., contingency) or any increase to a major object classification.

2. What is a “major expenditure classification”?

The seven major expenditure classifications are described in the BAM (Chapter 4, sections 4-22 to 4-38) as follows:

- 1000 – academic salaries
- 2000 – classified and other non-academic compensation
- 3000 – employee benefits
- 4000 – supplies and materials
- 5000 – other operating expenses and services
- 6000 – equipment and capital
- 7000 – other outgo

3. What constitutes a written resolution, and when is a written resolution required?

The district’s BP and AR 6250, CCLC policy and procedure templates, Title 5 and the Education Code all use the term “written resolution,” but none define the term. Board Policy 6250 states:

Transfers from the District reserve for Contingencies to any expenditure classification must be by way of written resolution and must be approved by a two-thirds vote of the members of the Board. Transfers between major expenditure classifications must be approved by a majority vote of the members of the Board.

This board policy lacks clarity, which results in differing interpretations because it does not answer the following questions:

- Must written resolutions be in a specific format other than a normal board agenda item? If so, what is that format?
- Must written resolutions be used for all adjustments to budget accounts or for increases to major object categories?
- Are written resolutions required prior to budget revisions, or does the chancellor have approval authority up to a specific transfer amount and/or if the transfer does not increase a major budget classification?

- If specific budget revisions can be delegated to the chancellor, is board ratification required?
4. What is ratification, and what are its parameters?

FCMAT was not able to locate any district policy or administrative regulation that clearly describes or defines ratification. Industry practice is to define ratification as a transaction (i.e., budget modification or contract) that has been approved by the district's chief executive officer (CEO) within their delegated authority. Common practice in California community colleges is for the board to delegate to the CEO (who in the district's case is the chancellor) the authority to approve purchases, execute contracts and make budget transfers up to a specified dollar amount. For example, it is not unusual for a district to use the Public Contracts Code's bid threshold amount, currently \$87,800, as the dollar threshold for delegated ratification authority for transactions. Since Public Contracts Code thresholds are adjusted annually, and that is the ratification amount, the AR should state that the threshold is automatically adjusted to reflect adjustments (if applicable). Clarity is also needed on whether or not a ratified transaction is considered final at the time of the CEO's approval. If the intent is that once a board gives delegated authority to the CEO (chancellor) to approve items on the board's behalf, the board ratifying the item approved after CEO approval is simply a formality.

BP 6100 (dated 2006) and AR 6100 (dated 2008), Delegation of Authority, need to be updated to include information on how ratification is defined, whether a transaction is considered "final" when the chancellor or his or her designee approves a budget modification, contract or similar change in accord with the BP/AR, and what the dollar limit approval is for.

Although budget revisions have been consistent with statutory authority and with existing district board policies and administrative regulations, those policies and regulations are incongruent with current industry standards or best practices. In addition, they do not contain enough detail to adequately inform board members.

Budget action terminology differs across the California community colleges, so clarification is important to avoid confusion. For instance, a "budget transfer" can be defined as moving budget from one major expenditure classification to another or transfer between funds; "budget revision" as changing the total amount previously authorized by the board; and "budget adjustment" as moving budget in sub-object and activity accounts within a major expenditure classification.

"General reserves for economic uncertainty" should also be clarified in BP and AR, as well as whether the unrestricted general fund balance is composed of the difference between budgeted beginning balances plus revenues less budgeted expenditures; or, if the general reserve is the total fund balance, after certain dedicated set-aside reserves. It is common for California community college districts to define a minimum ending balance for economic uncertainty as a percent of budgeted expenditures, and then any amount above that minimum is dedicated to options such as strategic planning initiatives, technology infrastructure, employee compensation enhancements, and board initiatives. This is a decision to be made by the board.

Another required clarification is the board's role in the budget preparation process. For example, the board's role could include the approval of initial enrollment and revenue projections that will be used in the preparation of the tentative budget in January. In addition, the board's approval of budget assumptions could help mitigate existing concerns about budget modifications and the board's knowledge of the budget's components.

Communication, Relationships and Roles of the Governing Board and Chancellor

Board members have not always interacted with the district's chancellor and senior administrators in accord with generally accepted standards such as those articulated in the Carver Model (<http://www.policygovernance.com>), Community College League of California (CCLC) standards for trustee behavior, or ACCJC accreditation standards. In addition, the chancellor and board members have not consistently adhered to BP 2430, Delegation of Authority to the Chancellor, which states:

The Chancellor shall make available any information or give any report requested by the Board as a whole. Individual trustee requests for information shall be met, if in the opinion of the Chancellor, they are not unduly burdensome or disruptive to District operation. Information provided to any trustee shall be available to all trustees.

The board's efforts to comply with the ACCJC's recommendations on communication, relationships and roles between the governing board, the chancellor and other internal district constituencies need to continue to increase its institutional effectiveness, specifically:

- a. Continuing to make a concerted effort to learn about, and act in a manner that is consistent with, its policies and bylaws.
- b. Improving its performance through ongoing efforts to allow the Chancellor to fully exercise the authority of his/her position to improve the district's effectiveness.

Recommendations

The district should:

1. Comply with BP 2405 to ensure that the board regularly reviews and evaluates its board policies.
2. Revise BP and AR to more clearly define roles, responsibilities and delegation of authority for the board and administration.
3. Ensure that there is a fair and clear process for selecting which board members will travel, updating board policies and administrative regulations to reflect those decisions.
4. Update BP 6100 (dated 2006) and AR 6100 (dated 2008), Delegation of Authority, to include information on how ratification is defined.
5. Update BP 6200 (dated 2006) and AR 6200 (dated 2008), Budget Preparation, to define the term "general reserves for economic uncertainty" and to define the board's role in the budget preparation process.
6. Update BP 6250 (dated 2006) and AR 6250 (dated 2008), Budget Management, to define what "written resolution" means, what can be approved by ratification, and when a two-thirds vote is required.

7. Define a “major expenditure classification,” and clarify what types of budget revisions require prior board approval rather than ratification by the chancellor and his or her subordinates using their board-delegated authority.
8. Discuss with the chancellor and other appropriate administrators the Education Code, Title 5 and BAM requirements, as well as the level of detail and content of budget agenda dockets that are most useful to board members.
9. Review BP 6340 and AR 6340, Bids and Contracts, both dated 2008. Revise the first bullet in BP 6340 to state “contracts are enforceable if the chancellor or his or her designee has acted within the authority granted to him or her by the board.” Add the phrase “as may be amended” to the second bullet after “... specified in Public Contracts Code Section 20651 ...”
10. Review BP and AR 6600, Capital Construction, both dated 2008, and consider expanding them to include acknowledging the general obligation bonds, adherence to Proposition 39 progress and financial reports to the board, the requirement for a comprehensive operational manual, and the board’s role in the selection of ICBOC members.
11. Update and activate the required Proposition 39 bond website and ensure that all ICBOC agendas, ICBOC minutes, performance audits, fiscal audits, master plans, and project status reports are included and updated regularly.
12. Provide quarterly updates on Proposition 39 bond-funded projects to the district’s board as part of the regular board meeting agenda.
13. Develop and document more specific and transparent administrative regulations and internal procedure manuals for the Proposition 39 bond-funded program and projects.
14. Prepare a comprehensive bond program policy and procedure manual.
15. Update the State Center Community College District Purchasing Handbook (Procedures, Guidelines & Regulations), with the last major revision in 2003.
16. Discuss with the chancellor and other appropriate administrators the Education Code, Title 5 and BAM requirements as well as the level of detail and content of budget agenda dockets that are the most useful to the board members.

Communication, Relationships and Roles of the Governing Board and Chancellor

17. Increase communication, relationships and roles of the governing board and the chancellor, including continuing to address the recommendations from the ACCJC recommendations.

FCMAT would like to thank the State Center Community College District and its administration for their cooperation and assistance during the fieldwork. If you have any questions or require additional information, please contact me at (415) 987-3104. Once you have completed your review, FCMAT will finalize this letter.

Sincerely,

A handwritten signature in blue ink that reads "Michelle Giacomini". The signature is written in a cursive style with a blue ink color.

Michelle Giacomini
Chief Management Analyst