



**CSIS** California School Information Services

# Desert Community College District

## Extraordinary Audit

November 28, 2012

Joel D. Montero  
Chief Executive Officer







## CSIS California School Information Services

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November 28, 2012

Frederick Harris, Assistant Vice Chancellor & Project Monitor  
California Community College Chancellor's Office  
1102 Q Street, 4th Floor  
Sacramento, CA. 95811-6549

Dear Assistant Vice Chancellor Harris:

On July 25, 2012 the Fiscal Crisis and Management Assistance Team (FCMAT) entered into an agreement with the California Community College Chancellor's Office to provide a review in accordance with Education Code Section 84041(a) and (c) (1)(2). Specifically, the agreement states that FCMAT will perform the following:

The California Community Colleges Chancellor's Office is requesting that the FCMAT Team conduct a review of the Desert Community College District's (DCCD), attendance accounting policies and procedures including the internal control structure to determine if fraud, misappropriation of funds or other illegal activities may have occurred in reporting apportionment attendance. The review shall be conducted in accordance with Education Code Sections 84501, 84752, Title 5, § 58000 et seq. and the state Budget and Accounting Manual for Student Attendance Accounting Manual rules and regulations in computing full-time equivalent students (FTES).

In accordance with Education Code section 84041 (a) and (c) (1) (2) the DCCD may request the FCMAT Team to assist the college to establish and maintain sound financial and budgetary conditions that comply with principles of sound fiscal management. The scope of work and review of attendance accounting procedures for full-time equivalent student (FTES) shall include forms prepared by the Chancellor's Office for State Apportionment Reports including CCFS-320 CCFS-321, CCFS- 320F Addendum to Part I, Supplemental Information CDCP Noncredit FTES and any supporting work papers or electronic files. The review shall include findings and recommendations to determine if the DCCD inappropriately claimed state apportionment funds utilizing catalog hours rather than actual or scheduled hours; and if any issues of fraud, misappropriation of funds or other illegal activities occurred during the reporting period.

The primary focus of this review is 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. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance.

### FCMAT

Joel D. Montero, Chief Executive Officer

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Administrative Agent: Christine L. Frazier - Office of Kern County Superintendent of Schools

Specific audit objectives will include evaluating the policies, procedures, and internal controls and transactions performed by the district related to the following:

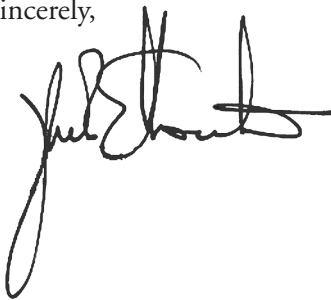
- The FCMAT Team will sample test data from the 2003-04 to 2009-10 fiscal years. Testing associated with this review will be based upon sample selection and will not include the testing of the complete list of all transactions and records for this period. Sample testing and review results are intended to provide reasonable, but not absolute assurance as to the accuracy of the district's transactions and financial activity.

The college's attendance accounting has been previously reviewed and recalculated with the appropriate amount of FTES that should have been claimed for a 7 year period from 2003-04 to 2009-10 by independent auditors. The 2003-04 fiscal year was the initial year of conversion and implementation to the Datatel ERP system. Independent auditors have reviewed, corrected and validated the new calculations, which demonstrate that the district over-reported FTES for apportionment funding for 3 of the 7 years, and under-reported the remaining 4 years and this component is not part of the study agreement.

This report includes the study team's findings and recommendations.

FCMAT appreciates the opportunity to serve you and extend our thanks to all the staff of the Desert Community College District in conjunction with the California Community Colleges Chancellor's Office for their assistance during fieldwork.

Sincerely,

A handwritten signature in black ink, appearing to read "Joel D. Montero". The signature is fluid and cursive, with a large initial "J" and "M".

Joel D. Montero

Chief Executive Officer

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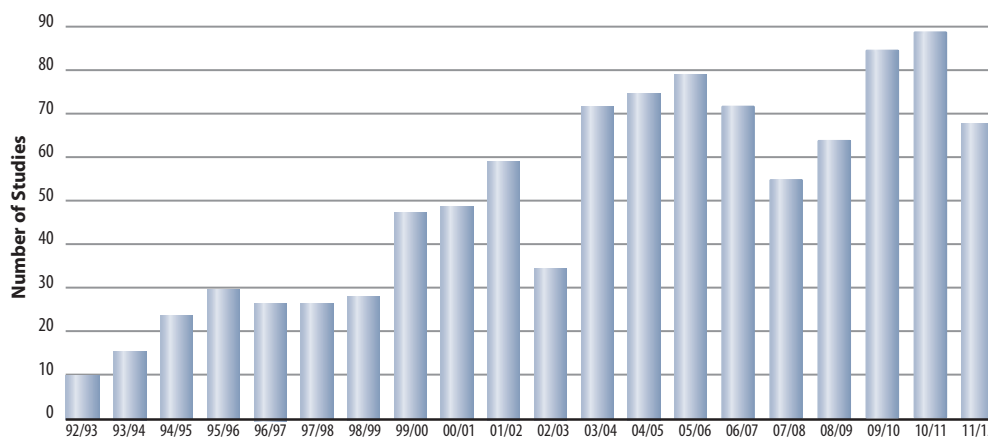
# About FCMAT

FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices and efficient operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and share information.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the local education agency to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

**Studies by Fiscal Year**



FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help local educational agencies operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) arm of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS) and also maintains DataGate, the FCMAT/CSIS software LEAs use for CSIS services. FCMAT was created by Assembly Bill 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. Assembly Bill 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. Assembly Bill 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county office of education and school districts to work together locally to improve fiscal procedures and accountability standards. Assembly Bill 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, SB 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

Since 1992, FCMAT has been engaged to perform nearly 850 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Joel D. Montero, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.



# Introduction

In July 2012, the Fiscal Crisis and Management Assistance Team (FCMAT) received a request from the California Community College Chancellor's Office to determine whether the Desert Community College District inappropriately claimed state apportionment funds. The FCMAT study team reviewed attendance reports that reported attendance using catalog hours instead of actual student contact hours as required by Education Code 84501 regulations adopted by the Board of Governors of the California Community Colleges.

The California Community College Chancellor's Office had received numerous allegations of fiscal irregularities related to the recording and reporting of student attendance that intentionally inflated funding from state apportionment that relied on the certified attendance reports. Concerned that these allegations may have violated various Education Code sections and California Code of Regulations (CCR) related to fraud and/or misappropriation of assets, the Chancellor's Office initiated an investigation to determine whether sufficient evidence of fraudulent activity exists to report the matter to the local district attorney's office for further investigation. Under the provisions of Education Code (EC) § 84041, the Fiscal Crisis and Management Assistance Team (FCMAT) entered into a contract with the Chancellor's Office to conduct a review in accordance with EC §84501, 84752 and title 5 § 58000 et seq.

FCMAT interviewed current and former employees; the college's independent attendance consultant; and reviewed documents to determine if instances of fraud, misappropriation of funds or other illegal practices may have occurred that would warrant further investigation by the local district attorney's office.

## Study Guidelines

FCMAT provides a variety of services to community colleges, school districts, charter schools and county offices of education upon request. Education Code Section 84041 (a) and (c) (1) (2) permits the Chancellor's Office to assist a community college district to establish or maintain sound financial and budgetary conditions and to comply with principles of sound fiscal management. The board of governors may request that FCMAT assist a community college district with an audit of the financial conditions of the district, provide management or fiscal crisis intervention, or both.

The FCMAT study team focused on specific allegations of fiscal mismanagement that district employees are alleged to have knowingly committed a wrongful act, misrepresented and concealed material facts from the Chancellor's Office by intentionally misreporting student attendance.

## Audit Fieldwork

The goal of a fraud examination is to resolve specific allegations, determine whether fraud has, or continues to occur, and to determine who is responsible. The fieldwork conducted for the College of the Desert focused on determining whether there is information to support or refute fraud pertaining to the allegation of intentional misreporting of full time equivalent Student (FTES) attendance information to the Chancellor's Office over a seven-year period of time.

Investigating allegations of fraud requires a number of steps that include examination of both internal and external third party documentation and interviews with staff members, former staff members and potential witnesses.

The FCMAT study team visited the Desert Community College District in July and August of 2012 to conduct interviews, collect data and review documents. Specifically, FCMAT reviewed, analyzed and tested records that included audited financial records; an agreed-upon procedures report prepared by independent auditors; (FTES) attendance reports (CCFS 320); district email correspondence; internal records including meeting minutes, board minutes and other documentation from independent third party sources.

Interviews were conducted with the college president, former president, vice presidents, senior administrative staff, management personnel, business office staff, information technology staff, the consultant that assisted with attendance report preparation on behalf of the district, and former community college employees. The purpose of the interviews was to evaluate information concerning the alleged mismanagement and fraudulent submittal of attendance reports.

The fieldwork focused on determining whether there is sufficient information to ascertain fraud pertaining to the allegation of intentional over reporting of FTES attendance information.

Fraud is defined in the California Civil Code at section 3294, (3) as, "... an intentional misrepresentation, deceit, or concealment of a material fact known to the defendant with the intention on the part of the defendant of thereby depriving a person of property or legal rights or otherwise causing injury." All fraud has common elements including the following:

- Intent - knowingly committing a wrongful act,
- Misrepresentation - or disguise of purpose to accomplish the act,
- Reliance - on weaknesses in the internal control structure, and
- Concealment - of the offense or material facts.

This report is the result of that investigation and is divided into the following sections.

- I. Introduction
- II. Background
- III. Scope and Procedures
- IV. Findings and Recommendations
  - Occupational Fraud
  - Chronology of Events
  - Potential Fraudulent Activities
  - Concealment of Material Facts
  - Materiality of Reported FTES
  - Management's Fiduciary Duty
  - Recommendations
- V. Appendices

# Study Team

The FCMAT study team was composed of the following members:

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FCMAT Consultant  
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# Background

In spring and summer 2011, the California Community College Chancellor's Office was alerted that the Desert Community College District may have misreported attendance beginning in 2003-04 when the college converted to a new software reporting system. An informant notified the Chancellor's Office that the district was inaccurately reporting full-time equivalent students (FTES) attendance for purposes of apportionment revenue based on catalog hours instead of actual student contact hours and furthermore, that district administrators were aware of the misreporting of FTES. It was alleged that administrators had intentionally submitted false reports and failed to correct or properly report the misreported FTES to the Chancellor's Office as required under title 5, 58134 and 59116. The California community college website has extensive resources available, including a Student Attendance Accounting Manual, 2001 Edition (SAAM), and related fiscal advisories that provide a complete set of statutory and regulatory guidelines for the proper reporting of student workload measurements for apportionment funding. Full-Time Equivalent Student (FTES) Attendance Accounting and legal references can be accessed at the following Web address:

[http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalServicesUnit/StudentAttendanceAccountingManual.aspx#Concurrent\\_Enrollment](http://extranet.cccco.edu/Divisions/FinanceFacilities/FiscalServicesUnit/StudentAttendanceAccountingManual.aspx#Concurrent_Enrollment)

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 FTES workload measure. FTES is not a "head count," but is the equivalent of 525 hours of student instruction per each FTES. Per title 5, § 58003.1, the FTES are computed under four different attendance accounting formulas: positive attendance (actual attendance generated from each class meeting), weekly census, daily census, and the alternative attendance accounting procedure for independent study/work experience education and distance education courses not computed using other basic procedures. Each method of attendance accounting ultimately calculates to a number of FTES (workload in contact hours) based on the number of students enrolled, the length of the course, and divided by 525. Per title 5, § 58003.1(a), the determination of which attendance accounting procedure to apply is based on the type of course (credit, noncredit, independent study, etc.), the way the course is scheduled, and the length of the course.

The major number of FTES reported by the community college districts are generated in weekly census procedure courses that are scheduled in the primary term either quarter or semester depending on the academic calendar configuration of the college. Courses that are scheduled as "weekly census" must be scheduled the same number of hours each week of the primary term. The primary terms usually equate to 35 weeks, but in some instances, there are more or fewer weeks than 35. Funding for census-based courses is based on students who are determined to be 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, § 58003.1, 58004, 58006, 58012, 58020, and 58023 govern how apportionment funding is calculated for daily and weekly student attendance.

To calculate FTES under the weekly census procedure, the number of actively enrolled students in each course are 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 if the academic year has been compressed) and divided by 525. This calculation is made for all weekly census courses for each primary term.

In September 2008, the Chancellor's Office issued an addendum to the SAAM. This addendum specifically addressed the topic of attendance reporting. Chapter 3 of the manual provided several examples of how to properly calculate student attendance hours. Further guidance is provided in the Community Colleges Apportionment Attendance Report (form CCFS-320.)

Per title 5§, 58003.4, FTES is required to be reported by community colleges three times per year using form CCFS-320. The CCFS-320 attendance report is signed and certified by the district superintendent/president that the information presented in the report is true and correct and is submitted three separate times each fiscal year as follows:

- First Period – July 1 through December 31,
- Second Period – July 1 through April 15, and
- Annual – July 1 through June 30.

As part of the regular reporting process for each fiscal year, districts can make adjustments/corrections to their "Annual" CCFS-320 reports up to November 1 of the subsequent fiscal year. This is known as the "Recal" CCFS-320 report and represents a possible fourth submission.

In addition to the regular submission of CCFS-320 reports as noted above, title 5 Section 59116 requires districts to promptly resolve inaccuracies in attendance accounting and reporting that are identified subsequent to the submission of the final CCFS-320 report submitted by district for a particular fiscal year (Annual or Recal). Districts are to inform the Chancellor's Office of these inaccuracies through a declaration of discrepancy notification pursuant to title 5 Section 59116.

The CCFS-320 report converts the student attendance contact hours based on the attendance accounting procedure designation into FTES. The FTES are then converted through a funding formula provided by the Legislature to the Chancellor's Office to apportionment dollars, which is how the college receives funding for the students the college serves.

If a college incorrectly accounts for student contact hours attending classes using a method that is not permissible for calculating FTES, the institution may receive more or less funding than what was actually earned. Consistent with the above noted title 5 regulations, the Chancellor's Office has established that catalog hours are not an acceptable method for calculating California community college FTES apportionment funding for specific designated classes. Except for courses required to be on the Alternative Attendance Accounting Procedure, the contact hours that form the basis of an FTES must be appropriately calculated from scheduled or actual meeting times as applicable for the particular course and the attendance accounting procedures that is applied.

Catalog hours are the course hours that a student may take as shown in a college's course catalog that lists all of the classes or courses a community college offers. The hours indicated for a course shown in the catalog is an estimate of how many hours the course will require. However, many times scheduling patterns for sections of the course may have different actual instructional time calculated than what is listed in the catalog for a particular course and must be reported appropriately using scheduled or actual hours and established contact hour computation rules (see title 5§, 58023). If a college reports catalog hours instead of actual hours by mistake or on purpose, the FTES reported by the college to the Chancellor's Office will be incorrect and therefore, the apportionment funding received will be inaccurate.

# Scope and Procedures

The fraud investigation consisted of gathering adequate information regarding specific allegations, establishing an audit plan, and performing various audit tests procedures to determine whether fraud may have occurred, who was involved and how it may have occurred. During the interviews, FCMAT study team members asked questions pertaining to levels of authority, financial management policies and procedures, job duties and responsibilities, and issues related specifically to when the district staff knew that FTES attendance reporting had not been accurately reported to the Chancellor's Office for the 2003-04 through the 2009-10 fiscal years.

FCMAT conducted interviews, examined district email communications, reviewed auditor's management representation letters, and reviewed the independent auditors agreed-upon procedures report specific to the overstatement of FTES to determine if fraud or other illegal activities may have occurred. The examination of district emails and interviews associated with this study is based on sample selection and does not include examining all district emails or interviewing all district staff members for the study period.

The primary focus of this review is to determine if illegal activities involving fraud, misappropriation of funds may have occurred and if there are adequate management controls to prevent illegal activity in the future. The review will also examine current management controls regarding the district reporting of student attendance to provide the Chancellor's Office with reasonable assurance that the appropriate controls are in place. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance.

Testing for this review is based on sample selection and does not include the testing of the complete list of all transactions and records for this period. Sample testing and review results are intended to provide reasonable, but not absolute assurance as to the accuracy of the district's transactions and financial activity.

To accomplish the objectives of this audit, a number of audit test procedures were developed to provide an in-depth analysis and understanding of the allegations and potential outcomes. The team had access to internal and external information that included the following:

- Audited financial statements.
- Review the governing board minutes.
- The independent accountants' report on applying agreed-upon procedures.
- Access to the district emails and internal documents from 2001 to 2012.
- Employee severance agreements.

The following findings and recommendations are the result of the audit procedures and review performed.





# Findings and Recommendations

## Occupational Fraud

The owners, executives, managers or employees of an organization may commit occupational fraud, which has three primary classifications:

1. Asset misappropriation fraud - Includes cash skimming, falsifying expense reports and/or forging company checks.
2. Corruption fraud - Involves an employee(s) using his or her influence in business transactions to obtain a personal benefit that violates that employee's duty to the employer or the organization; conflicts of interest fall into this category.
3. Financial statements fraud - Includes the intentional misstatement or omission of material information in the financial reports.

Occupational fraud is one of the most difficult types of fraud and abuse to detect; however, the most common method of detection is receiving tips, which accounts for three times the number of incidents of fraud detection compared to any other method for this type of scheme. It is estimated that financial statement fraud represents approximately 10% of all occupational frauds worldwide according to the Association of Certified Fraud Examiner's (ACFE) "2010 Report to the Nations" but the median loss is substantially larger than other occupational frauds. Of the 1,843 reported cases studied by the ACFE, fraudulent financial statements comprised 4.8% overall.

Financial statement fraud is characterized as a *deliberate misrepresentation* designed to deceive the users of financial statements. It is further defined as "the intentional misstatement or omission of material information in the organizations' financial report" according to ACFE. Manipulation of fictitious revenues is one common fraud scheme associated with financial statement fraud. Extensive research based on reported cases of financial fraud show a direct correlation between the perpetrator's position and authority in the organization and the losses incurred. Owners and/or executives losses are three times higher than those from managers and nine times higher than losses incurred by the employees within the organization.

## Internal Control Elements

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an array of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control processes provide reasonable assurance that a district's operations are effective and efficient, that the financial information produced is reliable, and that the organization operates in compliance with all applicable laws and regulations.

Internal control elements provide the framework for an effective fraud prevention program. An effective internal control structure includes the policies and procedures used by the staff, adequate accounting and information systems, the work environment, and the professionalism of employees. An effective internal control structure includes the five interrelated components of the control environment, fraud risk assessment, control activities, information and communication, and monitoring.

### Internal Control Element

Control Environment	Commonly referred to as “the moral tone of the organization,” the control environment includes a code of ethical conduct; policies for ethics, hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations.
Fraud Risk Assessment	Identification and assessment of organization’s objectives to establish and develop a strategy to react timely; analysis of potential risks of violations both internal (examples include personnel changes and/or new operating systems) and external (examples include shifting economic conditions and/or new legislation); and developing a strategy to manage risks.
Control Activities	The development of policies and procedures to enforce the governing board’s directives. These include the actions by management to prevent and identify misuse of the district’s assets, including the prevention of override of controls in the system by any employee.
Information and Communication	The establishment of effective fraud communication. This includes ensuring that employees receive information regarding policies and opportunities to discuss ethical dilemmas, and establishing clear lines of communication in an organization to report suspected violations. The organization should assimilate important information (such as legislative changes), pass on pertinent information, including anonymous reports, to those who need it, and provide for upward communication that is free from retaliation.
Monitoring	Ongoing monitoring that includes regular evaluation of the control environment by managers and employees. This also includes a process to verify the accuracy of financial information.

Examples of improper internal controls include, but are not limited to, the following:

- Failure to adequately segregate the duties and responsibilities of authorization.
- Failure to limit access to assets or sensitive data.
- Not recording transactions, resulting in lack of accountability and the possibility of theft.
- Unauthorized transactions, resulting in skimming, embezzlement or larceny.
- Lack of monitoring or implementing internal controls by the governing board and management.
- Collusion among employees where little or no supervision exists.

A system of internal controls consists of policies and procedures designed to provide the governing board and management with reasonable assurance that the organization achieves its objectives and goals. Traditionally referred to as hard controls, these include segregation of duties, limiting access to cash, management review and approval, and reconciliations. Other types of internal controls include soft controls such as management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

The internal control environment is a critical component since it establishes the organization’s moral tone, commonly referred to as “the tone at the top.” The tone at the top is an intangible internal control element that consists of the perception of an organization’s employees regarding the ethical conduct displayed by the governing board and administrative management.

A strong system of internal controls that consists of all five internal control elements can provide reasonable, but not absolute assurance that the organization will succeed in achieving its goals and objectives.

# Chronology of Events

The California State Chancellor's Office was concerned that the Desert Community College District incorrectly reported FTES for the fiscal years ending 2004 through 2010, a seven-year period, after receiving numerous tips about attendance reporting irregularities.

Over the past eight years, the district has employed senior administrators who were knowledgeable and familiar with the rules, methods, and proper determination of FTES. The district also retained a consulting firm that specialized in attendance reporting and helped the college convert attendance data from the previous Legacy system to a new reporting system purchased by the college in December 2001 for a 2003-04 targeted implementation date.

Datatel Enterprise software is used by many California community colleges and in almost every state to track and report student attendance. From December 2001 to the fall of 2003, district personnel conducted a series of committee meetings that included senior administrators, managers and support staff to decide how to map each course section and record student attendance among many other implementation decisions. The goal was to have the Datatel system operational by fall 2003.

FCMAT received a course selection mapping dated December 18, 2002 in a matrix format designed to map existing data from the current system into the intermediate files along with comments extracted from committee meetings for implementation purposes. This detailed document identifies each of the following areas:

- ID Information
- Basic section information
- Credit information
- Instructional methods information
- Billing information
- Registration information
- Facility requirement information
- Expense information
- Additional course section information
- Override date information
- Meeting information
- Faculty information
- Corequisite information
- Regular billing information
- Other regular billing information
- California information

The instructional methods information section provides details to the technology information programming staff on how the system was to be programmed for the measurement of student contact hours. According to the matrix, "contact hours of the section, defaults from the contract hours of the course."

In March 2004, district personnel made a final decision to use catalog hours instead of scheduled or actual hours in Datatel at a committee meeting attended by several employees, including two vice presidents. The results of that decision and minutes from the meeting were shared with numerous employees. Email evidence reviewed by FCMAT indicates that the district senior management team had significant and extensive knowledge of FTES miscalculation as early as 2004.

Two emails support the fact that the staff was instructed in how to set up the new Datatel system using catalog hours instead of actual student contact hours. The first email dated March 9, 2004 clarified section hours as follows:

Greater than 50 but less than 54 = 54

Greater than 30 but less than 36 = 36

Greater than 16 but less than 18 = 18

The methodology to use catalog hours is further illustrated in a second email and an attachment from a vice president to the district staff on how to calculate the FTES calculations for weekly student contact hour (WSCH) classes dated March 25, 2004. The attachment states that the final decision for total hours for the course will be “based on the catalog hours.” The document shows the following summarized example from the attachment:

If the catalog refers to a 3 hour class, the total hours per semester will be  $54 = 3 \times 18$ .

The table for other classes follows this pattern:

1 hour = 18 semester hours

2 hour = 36 semester hours

3 hour = 54 semester hours

4 hour = 72 semester hours

FTES for a WSCH class will be computed as follows:

$$\text{FTES} = \frac{(\text{Number of Students}) \times (\text{Semester Hours}/16) \times 16.4^*}{525}$$

Example: 30 students in a 4 hour class:

$$\frac{30 \times (72/16) \times 16.4}{525} = 4.22 \text{ FTES}$$

\* The 16.4 multiplier is results of 2 flex days/semester which makes the semester 16.4 weeks.

The correct methodology for calculating weekly census contact hours according to the formula provided by the Chancellor’s Office is as follows:

If the class schedule results in 3 weekly contact hours for a semester length class, the total hours per semester will be  $52.5 = 3 \times 17.5$ . (Maximum length term multiplier is 17.5.) Therefore, using this general example, there would be a total of 52.5 contact hours per student instead of 54, providing an overstatement of approximately 3% for every student hour reported

Using an actual previously claimed College of the Desert three-unit weekly census course from fall 2009 - AGPS 005-134 Plant Science, the weekly contact hours based on the catalog and the above district formula results in 3.38 weekly contact hours ( $54/16=3.375$ , rounded to 3.38), or 55.43 for each student for the entire semester ( $3.38 \times 16.4 \text{ TLM}=55.43$ ).

However, using contact hours calculated from the official schedule of classes, only 3.2 weekly student contact hours are calculated (class met Mondays and Wednesday from 8 a.m. to 9:20 a.m., which totals 3.2 contact hours per week), or 52.48 for each student for the entire semester ( $3.2 \times 16.4 \text{ TLM} = 52.48$ ). For this specific course section, there would be a total of 52.48 claimable contact hours per student instead of 55.43, providing an overstatement of approximately 5.62% for every student reported. The contact hour and FTES differences can have wide variances depending on course section and how that course section may have been scheduled. For example, a different section of the same three-unit plant science course from fall 2009 (AGPS 005-168) scheduled differently (Wednesdays, 3:40 p.m. to 6:45 p.m.) generated 3.3 weekly student contact hours based on the schedule of classes or 54.12 claimable semester hours per student. However, using catalog hours, the district inappropriately claimed a total of 55.43 contact hours per student ( $3.38 \text{ weekly hours} \times 16.4 \text{ TLM} = 55.43$ ). Therefore, for this one-day per week course section, the total difference between the two methods would be 1.31 contact hours per student or an overstatement of 2.42% for every student reported.

Shortly after the president's appointment in 2005-06, he retained an independent consulting firm to assist with the FTES calculations because he had concerns about the potential problem with the data from some district staff members. The contract dated January 3, 2005 between SIG and the district had the following scope of work:

Under the terms of this Agreement, the Consultant will provide consulting services to the staff of the College, as directed, and perform the following work: Consultant will conduct an analysis of the academic history data in the existing legacy COCO system and develop options and estimated costs to convert the data and load it into Colleague\*. The options and cost estimates will include the definition of ELF templates and conversion tables, development of extract programs, formatting the data within the ELF toolkit, loading the data into Colleague, reviewing the new academic records in Colleague for accuracy and making any required corrections.

*\*Note: Colleague is Datatel.*

The consulting firm has been on contract preparing the required attendance CCFS-320 reports from 2004-05 through the 2010-2011 fiscal year for all three reporting periods. At the Chancellor's Office request to resubmit the CCFS-320 reports from 2004-05 through 2009-10 fiscal years, the president retained the consulting firm to correct and resubmit the reports originally prepared by the same consulting firm at a cost of \$170 per hour totaling \$29,290.

The consulting contract is attached as Appendix A to this report.





## Potential Fraudulent Activities

In 2005, the president, vice president for business affairs and senior management, were informed that the correct actual student contact hours had originally been entered into Datatel; however, this was changed to catalog hours based on a decision made by district personnel in 2004. Senior management was also alerted that contact hours are not automatically calculated in Datatel and can be manually overridden. This information was originally presented in the matrix as previously mentioned and documented in district emails to the staff.

The president signed annual apportionment attendance certification reports CCFS-320 for each year from 2004 through 2011 certifying that to the best of his knowledge and belief, the apportionment attendance certification reports were true and correct, and that all data contained in the reports were reported and compiled in accordance with provisions of the Education Code and title 5 regulations adopted by the Board of Governors and the instructions in form CCFS-320.

During the FCMAT interview with the senior consultant that prepared the original and resubmitted reports, the consultant admitted that he was aware of the misreporting and notified the president on many occasions that student contacts hours reported on form CCFS-320 were incorrect. The consultant even prepared a random sample calculation during August 2005 that demonstrated over reporting of approximately 1% in the 2005-06 fiscal year and reported in an email dated March 9, 2006 that the 2005-06 estimates are “good enough for government work.” Yet, the consultant continued to prepare incorrect reports and the president continued to certify incorrect apportionment attendance CCFS-320 reports despite evidence that they knew the reports contained variances between 2% - 4% from 2005-06 through 2009-10.

On June 8, 2006, the president gave instructions to make sure that the SAAM was followed when performing attendance calculations yet by January 5, 2009, another email instructs staff to begin to correct “the Datatel problem” of over reporting. On June 23, 2009 in an email to senior administrators, the president admitted to knowing about the FTES issue, and furthermore knew that the incorrect methodology used to report student attendance had been in place for four to five years with an error rate of 2 – 4%.

Concealing the FTES error from the Chancellor’s Office for such an extended period of time and repetitively signing and certifying the apportionment attendance report form CCFS-320 as true and accurate established a repetitive history of misrepresenting the reporting of FTES.



# Concealment of Material Facts

Even though senior management had knowledge of these errors, the president or his representative signed independent auditor’s management representation letters for each audit year in 2004 through 2011 attesting to the following:

- a. Financial statements are fairly presented.
- b. That there are no material transactions that have not been properly recorded in the accounting records.

The management has no knowledge or allegations of any fraud or suspected fraud.

- a. And to the best of the district management’s knowledge and belief, no events, other than the events already disclosed in the financial statements, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of the management representation letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

On at least three occasions, senior management was alerted by the consultant and district staff that district personnel made the decision to enter catalog hours, yet the president wrote a June 15, 2011 email to the college colleagues misrepresenting that the FTES reporting error was the result of “incorrectly set up FTES calculation” in the implementation phase of converting to the Datatel system, and that the “contracted auditors for our district never brought this FTES calculation issue to our attention during their annual audit.” The president claims that these circumstances coupled with a sequence of staffing changes created a situation in which the district neglected to change its reporting methodology.

Alleging that the Datatel software consultants were to blame was quickly refuted by the Datatel Corporation. A letter dated July 15, 2011 by members of the Datatel staff and governing board subsequent to a meeting with the district president includes a summary of their mutual understanding that the error was not the result of “any miscalculation” on the part of Datatel or its software. In addition, emails from the audit firm claim that the district was alerted on several occasions about the issue. The Datatel letter is attached as Appendix B to this report.

In October or November 2011, the district retained the accounting firm of Vavrinek, Trine, Day & Company LLP (VTD) for attendance and FTES verification at the insistence of the Chancellor’s Office. In April 2012, that firm issued a report that identified that district FTES was incorrectly calculated in fiscal years 2004 through 2012, over a period of seven years including the 2010-11 fiscal year reports. The following table has been prepared by the Chancellor’s Office showing the overpayment totaling \$5,261,544, as follows:

<b>Fiscal Year</b>	<b>Original Funding</b>	<b>Recalculated</b>	<b>Standard Adjustment</b>
2004-05	\$27,221,555	\$26,912,458	\$(309,097)
2005-06	\$29,964,206	\$29,162,297	\$(801,909)
2006-07	\$34,718,130	\$34,026,790	\$(691,340)
2007-08	\$37,060,365	\$36,340,365	\$(720,000)
2008-09	\$38,402,719	\$37,688,660	\$(714,059)
2009-10	\$37,560,107	\$36,861,493	\$(698,614)
2010-11	\$38,345,516	\$37,649,160	\$(696,356)
2011-12	\$34,928,924	\$34,298,755	\$(630,169)
<b>Total</b>			<b>\$(5,261,544)</b>

The Chancellor's Office provided FCMAT with an analysis of the districts incorrectly reported FTES and has determined that the district was overpaid by \$5,261,544 and will work with the district to recover the full repayment due to the State of California.

The time of the alleged misreporting of district FTES spanned fiscal year 2003-04 beginning July 1, 2003, through fiscal year 2010-2011, ending June 30, 2011. The Chancellor's Office was concerned that the college president, vice presidents, and others knowingly committed a wrongful act, misrepresented or concealed material facts, and breached their fiduciary duty by improperly reporting FTES attendance apportionment because of the following reasons:

- FTES was incorrectly calculated over a seven-year period.
- Attendance reporting form CCFS-320 was signed and certified as true and correct in each of the years incorrectly reported.
- Experienced consultants were retained to assist the college with its attendance reporting.
- Senior administrators were knowledgeable and experienced with attendance reporting.

The district email communications examined by FCMAT corroborated many individual statements received during interviews of district administrators, staff, and consultants. The findings identified in this report were determined based on examining 6,887 emails extracted from more than 5.5 million emails during the seven-year period of time; other correspondence; interviews of district administrative staff, managers, former employees and consultants; and examining other reports and analysis regarding district FTES calculations.

FCMAT has identified approximately 50 emails that demonstrate management may have knowingly committed a wrongful act, misrepresented material facts, concealed material facts, or failed to exercise their fiduciary duty of loyalty and care. A summary of 10 of the most significant emails in chronological order is presented below.

1. The district senior management team was aware that the district was incorrectly reporting its FTES as catalog hours and discussed the incorrect reporting as early as March 25, 2004.
2. District administrators, senior management, and the attendance consultant were informed numerous times starting no later than June 28, 2005 by several district staff members that FTES calculations were incorrectly based on catalog hours rather than actual hours.
3. Datatel was originally set up correctly for actual hours and was changed to catalog hours no later than August 18, 2005 and that contact hours can be manually overridden within Datatel.
4. By August 30, 2005, the attendance consultant was examining FTES error rates.
5. On January 5, 2009, the district president sent an email stating that it is time to begin to correct the Datatel problem of overreporting FTES.
6. On February 25, 2011 the district attendance reporting consultant sent an email to the district president that the college had not yet made the switch from catalog hours to actual hours.

7. The district president sent an email to all employees on June 15, 2011 indicating that the FTES miscalculations occurred because of the Datatel software and also stated that the audit firm of Lund and Guttry had never brought the FTES issue to the college's attention.
8. In a response to the president's June 15, 2011 email alleging that the audit firm did not bring the FTES issue to the administration's attention, the audit firm's audit supervisor stated that the firm had pointed out the FTES issues in the annual financial audit reports for 2007, 2008, 2009, and 2010.
9. In a July 18, 2011 email from the representative of SIG provided recalculations of the previously uncorrected FTES.
10. In an email dated November 15, 2011 and December 16, 2011 the president of the Desert Community College District continued to allege that the incorrect reporting of FTES was a Datatel calculation issue.

FCMAT has reviewed the annual audit reports submitted by the audit firm to the Chancellor's Office for the period covered by the extraordinary audit. The audit reports do not contain findings that specifically discuss catalog versus scheduled hours; however, audit reports for some fiscal years include findings for issues related to missing census class rosters and other attendance issues.



## Materiality of Reported FTES

As previously mentioned, catalog hours are an estimate of how many hours the course will require, but do not always reflect an exact portrayal of the contact hours that will be generated by sections of the same course based on the actual class meeting times. Except for courses required to be on the Alternative Attendance Accounting Procedure, the contact hours that form the basis of an FTES must be appropriately calculated from scheduled or actual meeting times as applicable for the particular course and the attendance accounting procedures that is applied. Therefore, with the input of catalog hours, the number of contact hours was misreported to the Chancellor's Office.

Because of inaccuracy in reporting FTES using catalog hours instead of actual class hours, the district's audited FTES figures were overreported. This established a pattern of incorrect reporting for seven fiscal years, despite guidance provided by the Chancellor's Office in the form of the SAAM and title 5 regulations.

The Datatel system used by the district allows users to manually enter the proper contact hours into the system, therefore the information technology exists to properly record the district's actual student contact hours.

In April 2012, the certified public accounting firm of Vavrinek, Trine, Day & Co., LLP completed an agreed-upon procedures report that validated the district incorrectly certified FTES in the 2003-2004 through 2010-2011 fiscal years. Subsequent to the Vavrinek, Trine, Day & Co. revisions, the Chancellor's Office prepared an accounting of the \$5,261,544 in overreporting.





## Management's Fiduciary Duty

The district's senior management administrators were in a position of trust, had a duty of care to act in the best interests of the institution, and did not conduct the business affairs of the college with the skill and attention that would normally be exercised by someone in a similar position.

Based on the documentation reviewed and information gathered by FCMAT, there is sufficient evidence to demonstrate that the Desert Community College District's senior administrators may have knowingly committed a wrongful act, misrepresented the material facts, concealed the material facts, and did not exercise managements fiduciary duty of loyalty and care.

Internal controls clearly are among the most important aspects of any fraud prevention program. Managers are in a position of authority and therefore have a higher standard of care to establish the ethical tone and serve as examples to other employees. Employees with administrative responsibility have a fiduciary duty to the organization in the course of their employment to ensure that those activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct. Management personnel are entrusted to safeguard the college assets and ensure that internal controls function as intended.

While the governing board and all employees in the organization have some responsibility for internal controls, the president, vice president and consultant had a fiduciary duty and responsibility to ensure that the CCFS-320 report certifications and assurances were true and accurate to the best of their knowledge and that they acted responsibly and ethically.

Based on the documentation reviewed by FCMAT, there is sufficient evidence to demonstrate that financial statement fraud and mismanagement may have occurred. A significant material weakness exists in the college's internal control environment, which increases the probability of fraud and/or abuse. These findings should be of great concern to the district's governing board, and the California Chancellor's Office and requires the implementation of additional internal controls to limit the risk of fraud and/or misappropriation of assets in the future.



## Recommendations

*The California Community College Chancellor's Office should:*

1. Notify the district within 15 days upon receipt of this report of its proposed actions regarding the Chancellor's Office recommendations.
2. Report to the governing board of Desert Community College District, the state controller, and the local district attorney that there is sufficient evidence that fraud may have occurred within 45 days of completing the audit.



# Appendices

- A. Consulting Contract
- B. Datatel Letter
- C. Study Agreement



## Appendix A - Consulting Contract



information  
technology  
& management

December 2, 2004

Mr. Jerry Patton  
Vice President Administrative Services  
College of the Desert  
43-500 Monterey Avenue  
Palm Desert, CA 92260

Dear Jerry,

Sheri Taylor and I would like to thank you for the opportunity to meet with you and others at the College of the Desert (COD) to discuss how Strata Information Group (SIG) can assist COD with some of the Datatel projects under consideration. As we discussed we recommend focusing on planning for and completing the conversion of the academic history records from the legacy COCO system to Datatel.

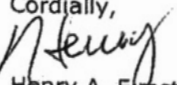
SIG is proposing a two-step approach for this project. Step one would be to conduct an analysis of the data in COCO and develop options for converting data into Colleague format. Step two would be the definition of ELF templates and conversion tables, development of extract programs, formatting the data within the ELF toolkit, loading the data into Colleague, reviewing the new academic records in Colleague for accuracy and making any required corrections.

Based on the analysis in step one SIG will develop options, alternatives and cost estimates for step two. These estimates will be developed in concert with COD staff regarding method and process.

We would recommend an initial engagement of 100 hours. At this point, we cannot be sure how much progress we can make with the conversion but we should be able to complete the step one analysis. If you are comfortable with our progress and approach then we could jointly consider how to complete the balance of this project and some of the other projects we discussed.

SIG bills on a monthly basis for labor and reasonable travel expenses. SIG bills only for services actually rendered and our standard rate for this type of service is \$170 per hour. The estimate for total labor and expenses is about \$19,000. I have attached a draft Professional Service Agreement for your consideration.

Thank you again for providing SIG with this opportunity to assist COD with this important project. I will be contacting you to discuss how you would like to proceed.

Cordially,  
  
Henry A. Elmstad  
Partner

3935  
Harney Street  
Suite 203  
San Diego  
California  
92110

(619) 296-0170

Fax  
(619) 296-0171

Internet:



Desert Community College District  
43-500 Monterey Avenue  
Palm Desert, California 92260

## **AGREEMENT FOR PROFESSIONAL CONSULTING SERVICES**

This Agreement is made between the College of the Desert (hereinafter referred to as the College), 43-500 Monterey Avenue, Palm Desert, CA, 92260, and Strata Information Group (hereinafter referred to as SIG), 3935 Harney Street, Suite 203, San Diego, California 92110.

### **1. Services**

SIG will provide services as directed in the completion of the tasks set forth in Exhibit A, attached to and made a part of this Agreement. SIG agrees to keep the College regularly informed of the progress of work performed under this Agreement.

### **2. Compensation**

The College will pay SIG \$170.00 per hour plus reasonable travel expenses to provide the services specified in Exhibit A. The cost of services and expenses to complete the identified activities will not exceed \$19,000. SIG will invoice monthly for labor and travel expenses. Additions to scope specified in Exhibit A are permitted under the agreement at the same compensation, however, no increase in amount or scope of services is authorized without formal amendment to this Agreement.

### **3. Term**

This Agreement is effective January 3, 2005 and will continue in effect until June 30, 2005. The agreement may be extended if agreed to in writing by both parties. Either party may cancel this agreement with 90 day written notice to the other party.

### **4. Reports**

Any and all files, notes, reports, manuscripts and any other work produced, prepared or developed by SIG as a part of the work under this Agreement are the property of the College and shall be provided to the College upon the termination of this Agreement.

### **5. Independent Contractor**

SIG will control the means and manner in which work is performed under this agreement and, in all respects; SIG's relationship to the College will be that of an independent contractor, not an employee.

### **6. Force Majeure**

Neither party to this Agreement will be liable to the other for any failure or delay in performance under this Agreement due to circumstances beyond its reasonable control including without limitation, Acts of God, accident, labor disruption, acts, omissions and defaults of third parties, and official, governmental and judicial action not the fault of the party failing or delaying in performance.

### **7. Warranty**

No warranty is stated or implied regarding the services provided under this Agreement.

### **8. Indemnification**

SIG agrees to and shall indemnify, defend and hold harmless the College, its officers, agents and employees free and harmless from, against and in respect of all claims, demands, losses, costs, expenses, obligations, liabilities, damages, recoveries and deficiencies, including interest penalties and reasonable attorneys fees that the College shall incur or suffer, which arise, result from, or relate to the legality and/or enforceability of the Agreement, or actions brought by employees of the College relating to claims arising out of the services rendered by SIG for the College. SIG shall only be liable for those losses, claims, or damages that arise as a result of performance under the terms, conditions, and period of this Agreement which solely and directly result from the negligence of SIG, and shall in

no circumstance exceed the amount of this Agreement in aggregate.

#### **9. Limitation of Liability**

SIG and the College acknowledge and agree that in no event will SIG's liability in connection with the services provided by SIG under this agreement exceed the amount actually paid to SIG by the College under this agreement and SIG will not be liable for any special, incidental, or consequential damages, including without limitation loss of profits, loss of data, and loss of revenues, even if informed of the possibility thereof in advance. These limitations apply to all causes of action in the aggregate, including without limitation breach of contract, SIG's negligence, strict liability, misrepresentation, and other causes of action based on similar legal theories. SIG and College further acknowledge and agree that they are entering into this agreement on the understanding that the fees for the services provided by SIG under this agreement have been set to reflect the fact that the College remedies, and SIG's liability, shall be limited as expressly set forth in this agreement, and if not so limited, the fees for the same services would have been substantially higher.

#### **10. Entire Agreement**

This agreement contains the entire agreement between the parties hereto, and supersedes any and all other agreements heretofore made.

#### **11. Ownership of Works for Hire**

All matters produced under this Agreement shall be works for hire and shall become the sole property of the College. Said works cannot be used for any other client or purposes without the College's expressed written permission. College shall have all right, title and interest in said matters, including the right to obtain and maintain the copyright, trademark, and/or patent of said matters in the name of the College.

#### **12. Worker's Compensation Insurance**

SIG agrees to procure and maintain in full force and effect worker's compensation insurance covering its partners, employees and agents while said persons are performing services pursuant to this Agreement. In the event that an employee of SIG performing this Agreement files a worker's compensation claim against the College, SIG agrees to defend and hold the College harmless from such claim.

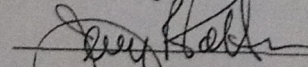
#### **13. Comprehensive or General Liability Insurance**

SIG, at its sole cost and expense, shall insure its activities in connection the Agreement, and obtain, keep in force and maintain insurance as follows: Comprehensive or General Liability Insurance with a limit of One Million Dollars (\$1,000,000) and Three Million Dollars (\$3,000,000) in aggregate, per occurrence.

#### **13. Nondiscrimination in Employment**

SIG agrees that it will not engage in unlawful discrimination in employment because of race, color, religious creed, national origin, ancestry, physical handicap, marital status, or sex.

For the College:

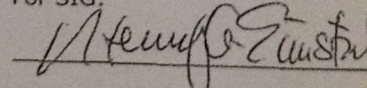


Jerry R. Patton, Vice President  
Administrative Service

Date: 12/20/04

A/C# 41-260-0000-0-6780-0000-5190

For SIG:



Henry A. Eimstad, Partner

Date: 12.6.04

IRS Taxpayer # 33-027 8391



**EXHIBIT A*****Statement of Work***

Under the terms of this Agreement, SIG will provide consulting services to the staff of the College, as directed, to perform the following work:

SIG will conduct an analysis of the academic history data in the existing legacy COCO system and develop options and estimated costs to convert the data and load it into Colleague. The options and cost estimates will include the definition of ELF templates and conversion tables, development of extract programs, formatting the data within the ELF toolkit, loading the data into Colleague, reviewing the new academic records in Colleague for accuracy and making any required corrections.

## Appendix B - Datatel Letter



July 15, 2011

President Jerry Patton  
College of the Desert  
43-500 Monterey Avenue  
Palm Desert, CA 92260-9399

Dear President Patton:

On behalf of the Datatel staff and Board, I want to thank you for your time last Wednesday to discuss the reporting issue you've had to handle recently.

I enjoyed meeting your executives and reviewing how we can handle this issue together. As I shared with you, Datatel is strongly committed to supporting and partnering with our customers. The Board works very hard to foster the highest ethical standards in all our transactions.

We were dismayed that you discovered that you needed to account for your credit hours in a different manner than you had been doing. I realize what a hassle this has been and am relieved that you have been able to manage the accounting modifications. The State has underfunded your growth for years and I hope they are able to factor this into any adjustment which might be made.

I am also relieved, on behalf of Datatel, that we were not the cause of any miscalculation and am grateful that you will share our meeting with Fred Harris in the Chancellor's office. I'll assume that you will share that discovery with your staff should the question arise.

We will be prepared to indicate to anyone who inquires about this issue that we had a very productive meeting and that the issue was resolved totally.

We are delighted that you are well along in your planning process and know that I would hope to assist you in any way in the future.

I'm proud of all that you are accomplishing and look forward to future meetings.

Best,

Charles Spence, Ph.D.

cc: John Speer, Datatel, President & CEO  
Anupam Mishra, H&F, Managing Director  
Mark Jones, Datatel, CCO



Copies to

- Farley Herz
- Bina Issac
- Anabelle Nera
- Adrian Gonz
- John Mult

## Appendix C - Study Agreement



### FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM STUDY AGREEMENT July 25, 2012

The FISCAL CRISIS AND MANAGEMENT ASSISTANCE TEAM (FCMAT), hereinafter referred to as the Team, and the College of the Desert (governed by the Desert Community College District), hereinafter referred to as the College, mutually agree as follows:

#### 1. BASIS OF AGREEMENT

The Team provides a variety of services to school districts, county offices of education, charter schools, and community colleges upon request. The College has requested that the Team provide for the assignment of professionals to study specific aspects of the College of the Desert operations, based on the provisions of Education Code section 84041. These professionals may include staff of the Team, County Offices of Education, the California State Department of Education, school districts, charter schools, community colleges, 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 to:

The California Community Colleges Chancellor's Office is requesting that the FCMAT Team conduct a review of the Desert Community College District's (DCCD), attendance accounting policies and procedures including the internal control structure to determine if fraud, misappropriation of funds or other illegal activities may have occurred in reporting apportionment attendance. The review shall be conducted in accordance with Education Code Sections 84501, 84752, Title 5, Section 58000 et seq. and the state Budget and Accounting Manual for Student Attendance Accounting Manual rules and regulations in computing full-time equivalent students (FTES)

In accordance with Education Code section 84041 (a) and (c) (1)(2) the DCCD may request the FCMAT Team to assist the college to establish and maintain sound financial and budgetary conditions that comply with principals of sound fiscal management. The scope of work and review of attendance accounting procedures for full-time equivalent student



(FTES) shall include forms prepared by the Chancellor's Office for State Apportionment Reports including CCFS-320 CCFS-321, CCFS- 320F Addendum to Part I, Supplemental Information CDCP Noncredit FTES and any supporting work papers or electronic files. The review shall include findings and recommendations to determine if the DCCD inappropriately claimed state apportionment funds utilizing catalog hours rather than actual or scheduled hours; and if any issues of fraud, misappropriation of funds or other illegal activities occurred during the reporting period.

The primary focus of this review is 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 districts attendance reporting and monitoring and that fraud, misappropriation of funds or other illegal activities have not occurred. Management controls include the processes for planning, organizing, directing, and controlling program operations, including systems for measuring, reporting, and monitoring performance. Specific audit objectives will include evaluating the policies, procedures, and internal controls and transactions performed by the district related to the following:

1. The FCMAT Team will sample test data from the 2003-04 FY to 2009-10 FY. Testing associated with this review will be based upon sample selection and will not include the testing of the complete list of all transactions and records for this period. Sample testing and review results are intended to provide reasonable, but not absolute assurance as to the accuracy of the district's transactions and financial activity.

The college's attendance accounting has been previously reviewed and recalculated with the appropriate amount of FTES that should have been claimed for a 7 year period from 2003-04 to 2009-10. The 2003-04 fiscal year was the initial year of conversion and implementation to the Datatel ERP system. Independent auditors have reviewed, corrected and validated the new calculations, which demonstrate that the district over-reported FTES for apportionment funding for 3 of the 7 years, and under-reported the remaining 4 years and this component is not part of the study agreement.

B. Services and Products to be Provided

- 1) Orientation Meeting - The Team will conduct an orientation session at the College to brief management and supervisory personnel on the procedures of the Team and on the purpose and schedule of the study.
- 2) On-site Review - The Team will conduct an on-site review at the College administration office and at other college sites if necessary.
- 3) Exit Meeting - The Team will hold an exit meeting at the conclusion of the on-site review to inform the College administration 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 detailing significant findings and recommendations to memorialize the topics discussed in the exit meeting.
- 5) Draft Reports - Electronic copies of a preliminary draft report will be delivered to the College administration for review and comment.
- 6) Final Report – Electronic versions of the final study report and copies is requested will be delivered to the College following completion of the review. The final report will be published on the FCMAT website.

### 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:

- |    |                       |                                      |
|----|-----------------------|--------------------------------------|
| A. | Deborah Deal, CFE     | FCMAT Fiscal Intervention Specialist |
| B. | Dr. Reagan Romali     | FCMAT Community College Consultant   |
| C. | Michael Ammermon, CPA | FCMAT Community College Consultant   |

Other equally qualified consultants will be substituted in the event one of the above noted individuals 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. \$800.00 per day for each FCMAT staff Member while on site, conducting fieldwork at other locations, presenting and preparing reports, or participating in meetings.
- B. All out-of-pocket expenses, including travel, meals, lodging, etc. The College 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 College.

**Based on the elements noted in section 2 A, the total cost of the study shall not exceed the amount of \$25,000.**

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



In consideration of satisfactory performance of this Agreement, the Chancellor's Office agrees to pay the FCMAT's costs including contractors in accordance with the approved contract budget, Exhibit G, which is also attached hereto and by reference made a part of this Agreement, and the Project Authorization for each particular investigation, review or audit.

The total amount payable under this Agreement shall not exceed the maximum amount of this Agreement, specified on the face page of this Agreement. Payment shall be made monthly in arrears upon receipt of an invoice, in triplicate, specifying this Agreement Number and the expenditures for the period covered, broken down by Project Authorization. Payment of all invoices will be subject to withholding of ten percent of the expenses billed pending satisfactory performance of this Agreement. No payments shall be made without the written approval of the Project Monitor and the Executive Vice Chancellor, or his/her designee. Such approval is contingent upon the Project Monitor's approval of the progress the Contractor has made within each respective invoicing period. Approval of invoices by the Project Monitor and the Executive Vice Chancellor or his/her designee shall not be unreasonably withheld.

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

#### **RESPONSIBILITIES OF THE COLLEGE**

- A. The College will provide office and conference room space while on-site reviews are in progress.
- B. The College will provide the following (if requested):
  - 1) A map of the local area
  - 2) Existing policies, regulations and prior reports addressing the study request
  - 3) Current or proposed organizational charts
  - 4) Current and two (2) prior years' audit reports
  - 5) Any documents requested on a supplemental listing
  - 6) Any documents requested on the supplemental listing should be provided to FCMAT in electronic format when possible.
  - 7) Documents that are only available in hard copy should be scanned by the district and sent to FCMAT in an electronic format.
  - 8) All documents should be provided in advance of field work and any delay in the receipt of the requested documentation may affect the start date of the project.
- C. The College administration will review a preliminary draft copy of 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. The final report will be published on the FCMAT website.

6. PROJECT SCHEDULE

The following schedule outlines the planned completion dates for key study milestones:

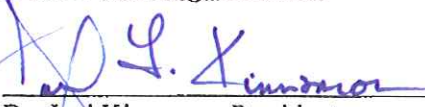
Orientation:	August 15, 2012
Staff Interviews:	To be determined
Exit Interviews:	To be determined
Preliminary Report Submitted	To be determined
Final Report Submitted	To be determined
Board Presentation	To be determined

7. CONTACT PERSON

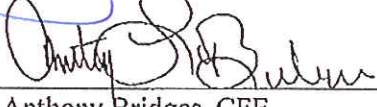
Name of contact person: Frederick Harris, Assistant Vice Chancellor

Telephone: (916) 323-8245 FAX \_\_\_\_\_

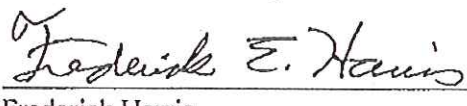
E-mail: fharris@cccco.edu

  
 Dr. Joel Kinnanon, President  
 College of the Desert

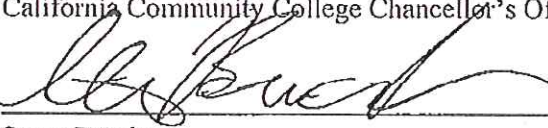
7/26/12  
 Date

  
 Anthony Bridges, CFE  
 Deputy Executive Officer  
 Fiscal Crisis and Management Assistance Team

July 25, 2012  
 Date

  
 Frederick Harris  
 Assistant Vice Chancellor & Project Monitor  
 California Community College Chancellor's Office

25 July 2012  
 Date

  
 Steve Bruckman  
 Executive Vice Chancellor of Operations and General Counsel  
 California Community College Chancellor's Office

7/25/12  
 Date