

CALIFORNIA COMMUNITY COLLEGES

Poor Oversight by the Chancellor's Office Allows Districts to Incorrectly Report Their Level of Spending on Instructor Salaries

REPORT NUMBER 2000-103, OCTOBER 2000

Audit Highlights . . .

Our review found that:

- Six of 10 districts did not meet the 50 percent threshold for spending on instructor salaries despite having reported compliance with the law.***
 - Board of Governors' regulations allowing districts to exclude costs for certain ancillary services not explicitly stated in the law do not further the Legislature's goal of providing more funding for instructional programs.***
 - Chancellor's Office training and monitoring is weak and does not provide adequate guidance or identify district misreporting. It also does not monitor the CPAs on whom it primarily relies to verify whether district reports are accurate.***
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The Joint Legislative Audit Committee (audit committee) requested that we review how the Chancellor's Office of the California Community Colleges (Chancellor's Office) implements the law requiring community college districts (districts) to spend 50 percent of their current educational expenses on salaries of instructors. The audit committee wanted to learn whether the Chancellor's Office appropriately instructs districts on calculating compliance with the law, commonly known as the 50 percent law. We found that:

Finding #1: Districts overstate their compliance rates.

Six of 10 districts we visited did not meet the 50 percent requirement for fiscal year 1998–99, despite reporting compliance with the law in annual reports to the Chancellor's Office. They overstated their compliance rates by inappropriately including administrative salaries and benefits in instructor salaries, and excluding from current educational expenses normal operating expenses or district-funded expenditures for categorical programs.

We recommended that the Chancellor's Office clarify its instructions to the districts and provide districts with regular training on compliance with the 50 percent law.

Chancellor's Office Action: Partial corrective action taken.

The Chancellor's Office reports that it presented changes in 50 percent law compliance tests to CPAs and district staff in May 2001 workshops. It says that it also reviewed input from the audited community college districts and work papers of the Bureau of State Audits to better define what clarifications in instructions were needed.

The Chancellor's Office states that it has pursued various alternatives for providing training to district staff. Such alternatives include, but are not limited to, making presentations for chief business officials. It also says that on October 1, 2001, it filled a new position to perform fiscal reviews and offer technical assistance.

Finding #2: Regulations adopted by the board of governors allow districts to incorrectly reduce current educational expenses.

The board of governors has adopted regulations allowing districts to exclude costs for all ancillary activities including bookstore, child development, parking, and student housing operations. The law, however, specifically describes only three such activities as excludable—student transportation, food services, and community services—and does not include a catchall category for “other” similar activities. Including General Fund expenditures and transfers to subsidize noninstructional activities, such as bookstore, child development, parking, and student housing as part of a district's current educational expenses, furthers the legislative goal of providing more funding for instructional programs.

We recommended that the Chancellor's Office discontinue its practice of excluding from the compliance calculation noninstructional activities not enumerated in the law or seek an opinion from the attorney general to support its interpretation of the law as reflected in the regulations.



Chancellor's Office Action: None.

The Chancellor's Office states that it respectfully disagrees with our recommendation, but is still studying the practical effects of ancillary programs in the districts.

Finding #3: Ineffective oversight by the Chancellor's Office allows districts to misreport their compliance rates.

The Chancellor's Office relies primarily on district-hired CPAs to ensure that districts' reports are accurate, but because these CPAs use inadequate audit procedures developed by the Chancellor's Office, they fail to discover errors. Also, some CPAs even fail to demonstrate that they have completed the audit procedures from the Chancellor's Office. Since fiscal year 1993–94, the Chancellor's Office has not routinely inspected the CPAs work to ensure that districts are complying with the 50 percent law.

We recommended that the Chancellor's Office expand suggested audit procedures for district CPAs to detect errors in risky areas, such as faculty reassignments and exclusions from current educational expenses. We also recommended that the Chancellor's Office perform routine, independent checks of work CPAs do for the districts.

Chancellor's Office Action: Partial corrective action taken.

The Chancellor's Office reports that it presented changes in 50 percent law compliance tests to CPAs and district staff in May 2001 workshops. It also says that it has resumed, to the degree possible, CPA work paper reviews. The Chancellor's Office currently has one new position being funded by the Governor for fiscal accountability. That position was filled and the staff started work on October 1, 2001. Further, the Chancellor's Office says it will establish a formal policy to address instances when it finds that CPAs audit work is substandard.

