

CALIFORNIA COMMUNITY COLLEGES

The Chancellor's Office Should Exercise Greater Oversight of the Use of Instructional Service Agreements for Training or Services

REPORT NUMBER 96040, JANUARY 2000

Audit Highlights . . .

Our review of California's community college districts (districts) revealed that the Chancellor's Office:

- Is not properly monitoring the districts' use of instructional service agreements.*
 - Does not have the information needed to determine which districts have instructional service agreements.*
 - Revised its district audit manual but the manual is still incomplete.*
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In accordance with Chapter 690, Statutes of 1997, we reviewed California's community college districts' (districts) compliance with regulations prohibiting the districts from receiving apportionment funding for activities that are fully funded through another source. Districts use the apportionment funds they receive to support their community colleges, including the instruction provided. Districts can use instructional service agreements (ISAs) to contract with public or private entities to provide specific training or services. This report concludes that the Chancellor's Office has been slow to review and follow-up on the district's compliance with regulations concerning ISAs. Specifically, we found:

Finding #1: The Chancellor's Office is not properly monitoring the districts' use of ISAs.

The Chancellor's Office has been slow to monitor and follow up on district annual audits performed by local independent certified public accountants (CPA). These CPA reports include information on the districts' compliance with regulations concerning ISAs. As of December 1999, the Chancellor's Office had reviewed only 18 of the 71 reports it had received 11 months earlier. Since it has not yet reviewed all 71 audit reports, the Chancellor's Office has only limited assurance that it properly allocated funding to the districts.

We recommended that the Chancellor's Office review district audit reports to ensure that CPAs have performed the required audit procedures to assess district compliance with state regulations on ISAs and promptly follow up on any state compliance issues identified in these annual audits.

Chancellor's Office Action: Corrective action taken.

The Chancellor's Office has completed the recommended action and has received and reviewed all 71 audit reports for fiscal year 1998–99.

Finding #2: The Chancellor's Office may have provided state apportionment funds for full-time equivalent students (FTES) that did not comply with existing Chancellor's Office regulations.

For fiscal year 1997–98, Barstow and Lassen community college districts received state apportionment funding for FTES generated through ISAs using instructors that did not have signed contracts with their districts. Such FTES do not comply with Chancellor's Office regulations and therefore would not qualify for apportionment funding. In addition, Chabot-Las Positas Community College District received state apportionment funding for FTES claimed through an arrangement with the sheriff's academy without having an ISA with that agency. Chancellor's Office regulations do not allow FTES to be generated in that manner.

We recommended that the Chancellor's Office determine whether the FTES credits Barstow and Lassen community college districts generated through their respective ISAs complied with State Education Code and the Board of Governors' regulations. We also recommended that the Chancellor's Office determine whether the FTES credits generated by Chabot-Las Positas Community College District met the requirements for state apportionment.

Chancellor's Office Action: Corrective action taken.

A specialist in vocational education with responsibility for ISAs has reviewed both districts and informed the Chancellor's Office that both are in compliance.

Finding #3: The Chancellor's Office lacks information to determine which districts have ISAs.

When we asked if the Chancellor's Office could provide us with the number of FTES individual districts generate from ISAs, we were told such information is not available at the Chancellor's Office. Without knowing which districts generate FTES through ISAs, the Chancellor's Office cannot assess which districts may be more likely to receive state apportionment funding based on agreements that do not comply with the requirements outlined in the district audit manual or the contract guide.

We recommended that the Chancellor's Office require districts to submit a list of their ISAs and the number of FTES the districts estimate they will generate through such agreements. The Chancellor's Office should utilize this information in its review and follow-up of the districts' annual audit reports to better assure that districts are entitled to the apportionment funding.

Chancellor's Office Action: Partial corrective action taken.

The Chancellor's Office is now gathering information regarding FTES generated at each community college by ISAs through the automated reporting system currently in place.

Finding #4: The Chancellor's Office's district audit manual is incomplete.

Although the Chancellor's Office revised its district audit manual to require the CPAs to test ISAs, its suggested audit procedures do not include such items as verifying that contracting entities certify that the direct education costs of their classes are not being fully funded through other sources. Such a certification is required by Section 58051.5 of Title 5 of the California Code of Regulations. Because it did not include this provision in its Contracted District Audit Manual, the Chancellor's Office has less assurance that districts comply with its provisions.

We recommended that the Chancellor's Office revise its Contracted District Audit Manual to require CPAs to specifically test the districts' compliance with regulations that prohibit them from claiming FTES for fully funded classes.

Chancellor's Office Action: Corrective action taken.

The Chancellor's Office has amended its Contracted District Audit Manual to require district auditors to specifically test the districts' compliance with regulations that prohibit them from claiming FTES for classes fully funded through another source.

