California Community Colleges

Contracted District Audit Manual



California Community Colleges Chancellor's Office April 2007

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SECTION 100

AUDIT ADMINISTRATION

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100 Audit Administration

110 - OVERVIEW

- .01 All community college districts, regional occupational centers and programs, and all other public local educational agencies are required to have an annual audit. Section 84040.5 of the *Education Code* requires the Board of Governors and the Department of Finance to prescribe the statements and other information to be included in the audit report filed with the state and to develop audit procedures for carrying out these audits.
- .02 This manual applies to annual financial and compliance audits of community college districts and was developed to encourage sound fiscal management practices among community college districts. The intent is to promote efficient and effective use of public funds for education in California by strengthening fiscal accountability at the district, county and state levels. The audit must therefore be conducted in accordance with Section 84040.5 of the *Education Code*. The auditors must indicate compliance with Section 84040.5 and include a summary of audit exceptions and management improvement recommendations in their report.

120 - AMENDMENTS TO THE MANUAL

.01 Procedural updates to this manual may be needed as auditing experience suggests improved accountability methods or statutes and regulations are revised. Accordingly, all users of this manual are encouraged to suggest such changes to the Chancellor's Office, California Community Colleges. The Chancellor's Office will update the audit manual periodically in cooperation with the Department of Finance.

130 - ARRANGEMENT FOR AUDIT

- .01 The governing board of each district is required to provide for an annual audit. Under *California Code of Regulations* (*CCR*), Title 5, Section 59102, each district must make its audit arrangements not later than the first day of May of each fiscal year. Upon making arrangements for the annual audit, each district must inform the Chancellor's Office that the audit arrangements have been made and identify the annual auditor that has been contracted. The Chancellor's Office should be notified of the audit arrangements no later than May 15 of each year.
- .02 In the event the governing board of a district has not provided for an audit by May 1, the Board of Governors shall do so.
- .03 If a governing board or the Board of Governors fails or is unable to make satisfactory arrangements for the audit, pursuant to *Education Code* Section 84040, the State Department of Finance shall make the arrangements. The cost of such an audit shall be paid from district funds.
- .04 All audits shall be made by a certified public accountant licensed by the California State Board of Accountancy.

140 - REPORT DUE DATE

- .01 Under *CCR*, Title 5, Section 59106, all audit reports for the preceding fiscal year must be filed with the Chancellor's Office no later than **December 31** following the end of the audited fiscal year.
- .02 There are no provisions to allow for extensions to date required to file the annual audit reports. If an audit report will not be filed by the December 31 due date, districts must inform the Chancellor's Office. This notification should include an explanation and the date when the late audit report will be filed.
- .03 As indicated in the *Accounting Advisory 05-05, Monitoring and Assessment of Fiscal Condition, October 25, 2005*, the untimely filing of the audit report along with the type of findings identified in the audit report may place a district on fiscal monitoring by the System Office.

150 - DISTRIBUTION OF AUDIT REPORTS

.01 For audit reports that are converted to a PDF file, the Chancellor's Office now requires that a PDF file copy of the audit report also be submitted with one hard copy. Additionally, the Department of Finance will now accept and prefer a PDF file of the report in-lieu of a printed copy.

Submit copies of the annual audit report as follows:

1. Chancellor's Office (1 printed copy and 1 PDF file copy)

Mail printed copy to:

Chancellor's Office California Community Colleges College Finance and Facilities Planning 1102 Q Street

Sacramento, CA 95814-6511

Email PDF copy to:

<CDAMReports@cccco.edu>

Attn: Fiscal Services

For large PDF files returned as undeliverable due to size limitations, email to fharris@winfirst.com

2. State Department of Finance (1 printed copy or in-lieu of printed copy send 1 PDF)

Mail printed copy to:

Department of Finance Office of State Audits and Evaluations 915 L Street Sacramento, CA 95814-3706 Email PDF copy to:

<OSAEHOTLINE@dof.ca.gov> Attn: Kim Tarvin, Audit Mgr. 3. State Department of Education (2 printed copies)

Mail printed copy to:

Department of Education Audits Investigation Division 1430 N Street; Room 5319 Sacramento, CA 95814

4. State Department of Social Services (1 hard copy)

Mail printed copy to:

Department of Social Services Employment Bureau 744 P Street, MS 16-33 Sacramento, CA 95814 Attn: Sandy Maier

- 5. Federal Audit Clearing House: According to §__.320 of the Office of Management and Budget (OMB) Circular A-133, auditees are required to submit Form SF-SAC (Data Collection Form) with complete copies of their single audit reporting package as described in §__.320. The district may select its desired method of Form data entry at http://harvester.census.gov/fac/collect/formoptions.html. Additionally, a hard copy of the Data Collection Form must be signed, dated and mailed with the district's reporting package. The address for submission is on the website. The data collection form and the reporting package must be submitted within nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. See OMB Circular A-133 §__.320 (a).
- 6. The U.S. Department of Education (ED): Requires institutions that participate in Federal student financial aid programs to submit data from their audited financial statements as well as attaching a PDF file of their audit report using the eZ-Audit submission system within nine months of their fiscal-year end effective June 16, 2003. Additional information about this process is found at https://ezaudit.ed.gov/EZWebApp/common/login.jsp>

160 - AMENDMENTS TO AUDIT REPORT

.01 When additional comments, explanations or corrections are found to be necessary after a report has been filed, inserts or supplements should be prepared and distributed by the auditor to all holders of the report.

170 - RETENTION OF AUDIT WORKING PAPERS

- .01 The audit working papers are subject to review by the State Department of Finance, the Chancellor's Office of the California Community Colleges and the Bureau of State Audits.
- .02 The working papers related to the annual audits shall not be destroyed until after the third July 1 succeeding the completion of the audit required by Education Code Section 84040 or of any other legally required audit or after the ending date of any retention period required by any agency other than the State of California, whichever date is later.

180 - AUDIT ASSISTANCE AND PUBLICATIONS

.01 Sources of audit assistance and related publications are shown below. The Chancellor's Office of the California Community Colleges is the source of information on the conduct of audits of community colleges. The Department of Finance should be contacted regarding financial statement presentation and disclosure requirements.

.02 Audit Assistance

State Department of Finance Office of State Audits and Evaluation 915 L Street Sacramento, CA 95814-3706

Telephone (916) 322-2985 Ext. 3152

Chancellor's Office
California Community Colleges
College Finance and Facilities Planning
1102 Q Street
Sacramento, CA 95814-6511

Telephone (916) 327-6818 or (916) 323-6899

.03 Publication and Source:

California_Community Colleges Contracted District Audit Manual, California Community Colleges Chancellor's Office, 2005.

http://www.cccco.edu/divisions/cffp/fiscal/accountability/cda.htm

Student Attendance Accounting Manual, California Community Colleges Chancellor's Office, 2001. http://www.cccco.edu/divisions/cffp/fiscal/allocations/links/manuals/saa manual.htm>

Student Fee Handbook, California Community Colleges Chancellor's Office October 2006 http://www.cccco.edu/divisions/legal/2006%20Student%20Fee%20Handbook.htm

California_Community Colleges Budget and Accounting Manual, California Community Colleges Chancellor's Office, July 2000.

http://www.ccco.edu/divisions/cffp/fiscal/standards/budget and accounting page.htm>

Legal Opinions, California Community Colleges Chancellor's Office, Legal Affairs Division. http://www.ccco.edu/divisions/legal/opinions/opinions.htm

Legal Advisories, California Community Colleges Chancellor's Office, Legal Affairs Division. http://www.cccco.edu/divisions/legal/notices/notices.htm

Publication and Source (cont.):

California Education Code. http://www.leginfo.ca.gov/calaw.html

Title 5, California Code of Regulations. http://ccr.oal.ca.gov/>

Government Auditing Standards, Government Accountability Office, 2003 Revision. http://www.gao.gov/govaud/ybk01.htm

- AIPCA Audit and Accounting Guide: Audits of State and Local Governments, American Institute of Certified Public Accountants. http://www.aicpa.org/index.htm>
- Original Pronouncements: Governmental Accounting and Financial Reporting Standards, Governmental Accounting Standards Board. http://www.gasb.org/>
- Codification of Governmental Accounting and Financial Reporting Standards, Governmental Accounting Standards Board. http://www.gasb.org/>
- OMB Circular A-21; Cost Principals for Educational Institutions (05/10/2004), U.S. Office of Management and Budget. http://www.whitehouse.gov/omb/circulars/index.html
- OMB Circular A-110; Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations, U.S. Office of Management and Budget. http://www.whitehouse.gov/omb/circulars/index.html>
- OMB Circular A-133; Audits of States, Local Governments, and Non-Profit Organizations, U.S. Office of Management and Budget. http://www.whitehouse.gov/omb/circulars/index.html
- OMB Circular A-133, Appendix B: Compliance Supplement for Audits of States, Local Governments, and Non-Profit Organizations (06/24/1997, includes revisions published in Federal Register 06/27/03), U.S. Office of Management and Budget. http://www.whitehouse.gov/omb/circulars/index.html
- Catalog of Federal Domestic Assistance, U.S. General Services Administration, 2005. http://www.cfda.gov/
- Governmental Accounting, Auditing, and Financial Reporting, Government Finance Officers Association. http://www.gfoa.org/>

SECTION 200

AUDIT REQUIREMENTS

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200 Auditing Requirements

210 - OVERVIEW

- .01 The auditing requirements addressed within the Contracted District Audit Manual are not new, but are directed more towards those matters that may have a significant financial impact on community college operations or are perceived to have increased the risk of noncompliance with existing statutes and regulations. As such, the audit shall concentrate on the review and evaluation of the community college district's system of internal accounting control and systems established to ensure compliance with laws and regulations affecting the receipt and expenditure of State, federal, and local funds, and on those major or significant compliance objectives and audit procedures for state and federal programs identified in this Manual and guide.
- .02 In accepting and conducting the audit, the auditor is reminded of Interpretation 501-3, "Failure to Follow Standards and/or Procedures or Other Requirements in Governmental Audits," of the American Institute of Certified Public Accountants' Code of Professional Conduct, January 1988:

Engagements for audits of government grants, government units or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to generally accepted auditing standards. If a member has accepted such an engagement and undertakes an obligation to follow specified government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards, he is obligated to follow such requirements. Failure to do so is an act discreditable to the profession in violation of Rule 501 [ET Section 501.01], unless the member discloses in his report the fact that such requirements were not followed and the reasons therefore.

- .03 It should be further understood that the auditing requirements as outlined herein are considered minimum requirements to meet the State's legal requirements pertaining to financial and compliance audits of the community college districts. While there may be reasons to justify deviation from these auditing requirements, disclosure that certain requirements were not followed with the reasons for the deviation will not necessarily waive those auditing requirements. Thus, any deviation will be evaluated on the basis of whether the audit and audit report satisfy the State's legal requirements. If not, the omitted auditing requirement must be completed and a supplemental report submitted to all report recipients.
- .04 The following items represent the significant audit requirements to which the auditor must be alert in conducting the audit.

220 - AUDIT SCOPE

.01 Each audit shall include an examination of all funds and account groups of the district, including the student financial aid funds, student body funds, cafeteria funds, and any

- other funds under the control or jurisdiction of the district to obtain reasonable assurance about whether the financial statements are free of material misstatement.
- .02 The community college district may, at its option, contract for the audit and include additional items over and above the reporting requirements prescribed in this Manual. However, the audit shall, at a minimum, include those items specified in this manual.
- .03 Each audit will also include an examination for compliance with laws, rules, and regulations as more fully described later in this section.

230 - AUDIT STANDARDS

- .01 The financial and compliance audit shall be made in accordance with:
 - · Government Auditing Standards,
 - Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations;
 - OMB Circular A-133 Compliance Supplement; and
 - Contracted District Audit Manual issued by the Chancellor's Office of the California Community Colleges.
- .02 The Government Auditing Standards 2003 Revision are effective for financial audits and attestation engagements of periods ending on or after January 1, 2004, and for performance audits beginning on or after January 1, 2004.

240 - FINANCIAL STATEMENTS

- .01 The financial statements and required supplemental information (RSI) for audit reports of districts reporting as Special-purpose Governments Engaged Only in Business-type Activities (BTA) is specified in paragraph 138 of Governmental Accounting Standards Board (GASB) Statement 34. The financial statements and RSI consists of:
 - Management's Discussion & Analysis (MD&A);
 - Statement of Net Assets:
 - Statement of Revenues, Expenses, and Changes in Net Assets;
 - Statement of Cash Flows;
 - Notes to Financial Statements; and
 - RSI other than MD&A.
- .02 An example of such statements is illustrated in Appendix/Attachment A.
- .03 If the district has participated in the State Teacher's Retirement System Retirement Incentive Program, disclosure in the notes to the financial statements is required. Details of the required disclosures are contained in Section 325 of this manual.

250 - SUPPLEMENTAL INFORMATION

- .01 In addition to the community college district's financial statements, additional supplementary information is required. However, the specific information may change from year to year as the needs of management at the local, State and federal levels change. The schedules that will be required each year will include the following:
 - Schedule of Federal Financial Awards,
 - Schedule of State Financial Awards.
 - Reconciliation of the district's CCFS-311 to the district's books as generated by its accounting system, and
 - Schedule of workload measures used for <u>State General Apportionment</u> for program based funding.
- .02 <u>NOTE</u>: The audit is to include the names of the college(s) receiving federal financial awards for federal record keeping purposes.

260 - INTERNAL CONTROL

- .01 In conjunction with each financial and compliance audit of a community college district, the auditor will consider and evaluate the community college district's system of internal control over its financial reporting; compliance with laws, regulations, contracts, and grants applicable to federal and state programs; and the expenditure of federal, state, and local funds. The audit shall include sufficient testing and evaluation of internal control to assess its effectiveness and identify when internal control over some or all of the compliance requirements for major programs are likely to be ineffective in preventing or detecting noncompliance.
- .02 The need for auditors to effectively consider and evaluate the community college district's internal control, which is intended to ensure compliance with applicable laws and regulations, cannot be overemphasized. The auditors' report should include comprehensive comments, recommendations, and descriptions of any material weaknesses noted that are related to problems in controls, systems, or procedures.
- .03 In addition, a copy of any management letters issued resulting from the annual audit and review of the district's internal controls should accompany the contracted district audit report sent to the Chancellor's Office.

270 - COMPLIANCE

.01 The district's compliance with legal and regulatory requirements may have a material impact on its financial position because noncompliance with laws and regulations could generate contingent financial liabilities for the district. Accordingly, the auditor shall determine whether the community college program, function, or activity under audit has effectively complied with applicable laws and regulations.

- .02 Section 400 of this Manual identifies the programs to be audited for State compliance.

 The auditor <u>must</u> report on those compliance procedures that are current for the year of audit.
- .03 Federal programs and related compliance questions, audit procedures and background material are generally addressed in the Office of Management and Budget's A-133 Compliance Supplement for Single Audits of States, Local Governments and Non-Profit Organizations; auditors should refer to the A-133 compliance supplement as part of their review. Copies of the Compliance Supplement may be obtained through the OMB's website at http://www.whitehouse.gov/omb/circulars/index.html.

280 - AUDIT FINDINGS

- .01 Audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan, take corrective action and, if applicable, for the Chancellor's Office to arrive at a management decision. The following specific information shall be included in audit findings (as applicable):
 - (1) The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.
 - (2) The identified condition including facts that support the deficiency determination cited in the audit finding. This should include the number of Full Time Equivalent Students (FTES) claimed for any cited conditions or item of noncompliance that affects the FTES claimed by the district for state general apportionment.
 - (3) Identification of questioned costs and how they were computed.
 - (4) Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the audit and sample populations and be quantified in terms of dollar value.
 - (5) The effect of the finding to provide information that would allow a determination of the cause and the effect to facilitate prompt and proper corrective action.
 - (6) Recommendations to prevent future occurrences of the deficiency identified in the audit finding.
 - (7) District response.

SECTION 300

REPORTING REQUIREMENTS

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300 Reporting Requirements

310 - OVERVIEW

- .01 In an effort to make the results of the audit more understandable and meaningful to both the readers and users of the community college district audit report, the reporting requirements include separate auditor's reports on financial statements, state compliance, compliance and internal control over financial reporting in accordance with Government Auditing Standards, compliance with requirements applicable to each major program and internal control over compliance in accordance with Office of Management and Budget (OMB) Circular A-133, and a separate section for management letters and status of previous years' audit findings.
- .02 Community college districts that prepare a Comprehensive Annual Financial Report (CAFR) in accordance with the Governmental Accounting Standards Board's (GASB) Statement No. 1 may submit their CAFR, including the auditor's report, separate auditor's reports on state and federal compliance audit requirements, and supplemental information to fulfill the audit reporting requirements of this manual.
- In June 2004, the Governmental Accounting Standard's Board (GASB) released Statement Number 44, "Economic Condition Reporting: The Statistical Section", which enhances and updates the statistical section that accompanies a state or local government's financial statements. This statement applies to any statistical section that accompanies a government's basic financial statements. The provisions of GASB Statement 44 are effective for statistical sections prepared for periods beginning after June 15, 2005.
- In August 2004, the GASB is released Statement Number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Statement 45 becomes effective in three phases based on a government's total revenues. The largest employers would be required to implement the requirements for periods beginning after December 15, 2006. Medium-sized employers have one additional year to implement the standards and the smallest employers have two additional years. Early implementation is encouraged.
- .05 In December 2004, the GASB released Statement Number 46, "Net Assets Restricted by Enabling Legislation an amendment of GASB No. 34." This statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as citizens, public interest groups, or the judiciary, can compel a government to honor. The statement requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation as of the end of the reporting period. Statement 46 is effective for periods beginning after June 2005. Early implementation is encouraged.
- .06 In accordance with statements issued by GASB, the districts have elected to report using the Business-type Activities (BTA) model. This model prescribes that the districts need only issue a government-wide Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows. This reporting model does

not require fund financial statements to be included with the district's annual financial report.

- .07 For additional guidance on the audit report sections and subsections, please refer to the respective editions applicable to the year being audited in the following:
 - "Codification of Statement on Auditing Standards" published by the American Institute of Certified Public Accountants.
 - "Codification of Governmental Accounting and Reporting" published by the Governmental Accounting Standards Board,
 - "Government Auditing Standards" published by the Comptroller General of the United States, or
 - "Governmental Accounting, Auditing and Financial Reporting" published by the Governmental Finance Officers Association.

315 - REPORT FORMAT

- .01 At a minimum, the audit report's title page should include the district's name, college(s) name(s), city, county and state, report title, and audit period. A table of contents should then set forth the major sections of the report with their respective page numbers. The report should be arranged as follows:
 - District Superintendent's Message (optional)
 - Introduction
 - Independent Auditors' Report
 - Management's Discussion and Analysis (MD&A)
 - Basic Financial Statements
 - Notes to Financial Statements
 - Required Supplementary Information Other Than MD&A
 - Auditor's Report on Information Accompanying the Basic Financial Statements (Supplemental Information) – May be added to the auditor's report on the basic financial statements or may appear separately in the auditor-submitted document.
 - Supplementary Information
 - Notes to Supplementary Information
 - Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards
 - Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133
 - Independent Auditor's Report on State Compliance
 - Schedule of Findings and Questioned Costs
 - Summary of Auditor's Results
 - Management Letters
 - Status of Prior-Year Findings and Recommendations

320 - LETTER OF TRANSMITTAL (OPTIONAL)

.01 If a letter of transmittal is presented, it should not duplicate, but may elaborate on, information required in the MD&A. The GASB believes that the MD&A and the letter of transmittal should be kept separate because they serve different purposes and because no authoritative standards have been set for the letter of transmittal. Information in the letter of transmittal may include prospective information and other data that are currently beyond the scope of GAAP.

321 - INTRODUCTION

.01 The introduction shall include a description of audit objectives. Preferably, it should include a brief description of the scope of the audit, audit period, and use of auditing standards.

322 - AUDITOR'S REPORT ON FINANCIAL STATEMENTS

- .01 The auditor's report on financial statements shall incorporate the additional reporting standards required by government auditing standards. The report should state that the audit was performed in accordance with generally accepted governmental auditing standards (GAGAS). In addition, when providing an opinion or disclaimer on financial statements, the auditors should include either a description of the scope of the auditors' testing of internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements and the results of those tests or an opinion, if sufficient work was performed, or references to the separate report(s) containing that information.
- Auditors should report deficiencies in internal control considered to be reportable conditions as defined in AICPA standards, all instances of fraud and illegal acts unless clearly inconsequential, and significant violations of provisions of contracts or grant agreements and abuse. (If the auditor is performing an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the thresholds for reporting are defined in the circular and are sufficient to meet the requirements of GAGAS. If the auditors' report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.
- .03 If certain pertinent information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.

323 - MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

MD&A provides users of the basic financial statements with a narrative introduction, overview, and analysis of those statements. Because MD&A constitute *required* supplementary information, the district may not address additional topics not described in paragraphs 8-11 of GASB Statement 34. The overview helps readers to assess whether the district's financial position has improved or deteriorated as a result of the year's operations. The overview is an analysis of the district's financial activities based on currently known facts, decisions, or conditions. *Currently known* indicates information that management is aware of as of the date of the auditor's report. MD&A should address both

positive and negative trends while discussing the current-year's results in comparison with the prior year, with emphasis on the current year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information.

324 - BASIC FINANCIAL STATEMENTS

- .01 Basic financial statements focus on the overall financial position and activities of the district and measure and report all assets, liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting. This information should assist users' with assessments of the district's financial condition and its ability to maintain service levels and continue to meet its obligations as they become due. Information about fiduciary activities is normally excluded. The basic financial statements consist of the following statements and the associated notes to the basic financial statements.
- .02 **Statement of Net Assets**: The statement of net assets uses a classified format to distinguish between current and non-current assets and liabilities and to display the financial position of the district and its discretely presented component units. This statement differs from the traditional combined and combining balance sheets by its level of aggregation and its focus on the district's total operations, rather than fund and fund-type reporting. The statement also incorporates the use of the economic resources measurement focus and accrual basis of accounting for all assets and liabilities; the reporting of general capital assets and general long-term liabilities, which previously were reported only in account groups; and the reporting of infrastructure assets, which previously was optional. In addition, net assets are now displayed in three broad components invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions); and unrestricted.
- .03 **Statement of Revenues, Expenses, and Changes in Net Assets**: This is the operating statement for the district as a whole. The statement reports revenues by major source, identifies any revenues used as security for revenue bonds and distinguishes between operating and nonoperating revenues and expenses consistent with the district's definition of operating revenues and expenses. Information presented should be sufficient to determine whether current-year revenues are adequate to cover the cost of current-year services and identify how the district finances its activities. This presentation along with the aggregation of financial data should enhance comparability between districts.
- Otash Flows: The statement of cash flows provides information about the district's cash receipts and cash payments for the year's operations, its non-capital financing transactions, its capital and related financing transactions, and its investing transactions based on the provisions of GASB Statement 9, as amended by GASB Statement 34. The statement includes the net cash provided and used, the net effect of those cash flows on each of the above categories, and on cash and cash equivalents during the period regardless of any restrictions on their use. The direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) is required.

.05 Required Supplementary Information:

a. Required supplementary information in addition to the MD&A should include certain data addressing concerns of previous GASB pronouncements such as public entity risk pools (GASB Statement 10), defined benefit pension plans (GASB Statement 25), and

- accounting for pensions by state and local governmental employers (GASB statement 27).
- b. Schedules: The needs and requirements of the California Community Colleges will dictate the level of accounting to be shown in the suggested schedules. Schedules are used to demonstrate finance-related legal and contractual compliance (e.g., where bond indentures require specific data to be presented) and to present other information deemed useful (e.g., data related to annual FTES calculations, such as the Schedule of workload measures for <u>State General Apportionment program based funding</u>). Determination of the appropriate level of detail as to what is presented in a schedule is a matter of professional judgment.

325 - NOTES TO FINANCIAL STATEMENTS

- .01 The notes to the financial statements should communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. The notes are an integral part of the basic financial statements. Guidance pertaining to existing note disclosures is found in National Council on Governmental Accounting (NCGAI) Interpretation 6, as amended, and GASB Statement 38, Certain Financial Note Disclosures. Note disclosure requirements need not be applied to immaterial items.
- .02 Section 2300 of the Codification of Governmental Accounting and Financial Reporting Standards (GASB) and GASB Statement 35 identify specific notes that are essential to fair presentation of the financial statements. These notes include, but are not limited to:
 - 1. Summary of significant accounting policies, including:
 - (a) A description of the district-wide financial statements, noting that neither fiduciary funds nor component units that are fiduciary in nature are included.
 - (b) A brief description of the component units of the financial reporting entity, the criteria for including component units in the financial reporting entity and how the component units are reported.
 - (c) The measurement focus and basis of accounting used in the district-wide statements.
 - (d) The revenue recognition policies used by the district.
 - (e) The policy for eliminating internal activity in the district's statement of activities.
 - (f) The policy for capitalizing assets and for estimating the useful lives of those assets (used to calculate depreciation expense). Districts that choose to use the modified approach for reporting eligible infrastructure assets should describe that approach.
 - (g) The policy for allocating indirect expenses in the statement of activities.
 - (h) The policy for defining operating and non-operating revenues.
 - (i) The policy for applying FASB pronouncements issued after November 30, 1989.
 - (j) The definition of cash and cash equivalents used in the statement of cash flows.
 - (k) The district's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.
 - 2. Cash deposits with financial institutions.
 - Investments.

- 4. Significant contingent liabilities.
- 5. Significant effects of subsequent events.
- Annual Pension cost and net pension obligations.
- 7. Significant violations of finance-related legal or contractual provisions and actions taken to address such violations.
- 8. Debt service requirements to maturity.
- 9. Commitments under noncapitalized (operating) leases.
- 10. Construction and other significant commitments.
- 11. Required disclosures about capital assets This disclosure presents the beginning and ending balances, and increases and decreases for the year for each major class of capital asset and its related accumulated depreciation.
- 12. Required disclosures about long-term liabilities This disclosure presents the beginning and ending balances, and increases and decreases for the year for each major type of long-term liability. In addition, it requires disclosure of the portion of each item that is due within one year.
- 13. For each major component unit, the nature and amount of significant transactions with other discretely presented component units or with the district.
- 14. Disclosures about donor-restricted endowments This disclosure must include the amount of net appreciation on investments of donor-restricted endowments that are subject for authorization for expenditure by the governing board, and how those amounts are reported in net assets.

Additional disclosures that should be made in the notes if applicable may include:

- 1. Entity risk management activities.
- 2. Property taxes.
- 3. Segment information.
- 4. Condensed financial statements for major discretely presented component units.
- 5. Short-term debt instruments and liquidity.
- 6. Related party transactions.
- 7. Capital leases.
- 8. Information about collections (if applicable) This disclosure presents collections not capitalized and provides a description of those collections and the reasons those assets have not been capitalized.
- 9. Joint ventures and jointly governed organizations.
- 10. Debt refundings.
- 11. Pension plans.
- 12. Bond, tax, or revenue anticipation notes excluded from fund or current liabilities.
- 13. Nature and amount of inconsistencies in financial statements caused by transactions between component units having different fiscal year-ends or changes in fiscal year-ends.
- 14. Relationship of component unit to primary government in separately issued component unit financial report or component unit financial statements.
- 15. Reverse repurchase and dollar reverse repurchase agreements.
- 16. Special assessment debt and related activities.
- 17. Demand bonds.
- 18. Post employment benefits other than pension benefits.

- The amount of interest expense included in direct expenses in the district-wide statement of activities.
- 20. Significant transactions or other events that are either unusual or infrequent but not within the control of management.
- .03 Employers that participate in cost-sharing multiple-employer plans should recognize annual pension expenditures or expense equal to their contractually required contributions to the plan. Employers with defined contribution plans should recognize annual pension expenditures (in governmental fund financial statements) equal to their required contributions, in accordance with the terms of the plan.
- .04 Employers should also include the following information in the notes to their financial statements for each defined benefit pension plan in which they participate, regardless of the type of plan. Disclosures for more than one plan should be combined in a manner that avoids unnecessary duplication.

a. Plan description:

- 1. Name of the plan, identification of the public employee retirement system or other entity that administers the plan, an identification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit pension plan.
- 2. Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended.
- 3. Whether the pension plan issues a stand-alone financial report, or is included in the report of a public employee retirement system or another entity, and, if so, how to obtain the report.

b. Funding policy:

- 1. Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities are established or may be amended.
- 2. Required contribution rate(s) of active plan members.
- 3. Required contribution rate(s) of the employer in accordance with the funding policy, in dollars or as a percentage of current-year covered payroll. If the plan is a single-employer or agent plan and the rate differs significantly from the ARC, disclose how the rate is determined. If the plan is a cost-sharing plan, disclose the required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years.

.05 State Teachers Retirement System (STRS) Retirement Incentive Program:

Assembly Bill 1207 (Chapter 313, Statutes of 2003) has provided provisions for the STRS to provide an early retirement incentive program. Per Education Code 84040.5(c), community college districts that have participated in the STRS Retirement Incentive Program must include information regarding the program in their annual audits. This information should be disclosed in the notes to the financial statements and include the following:

- The number and type of positions being vacated.
- The age and service credit of the retirees receiving the additional credit.

- A comparison of the salary and benefits of each retiree receiving the additional service credit with the salary and benefits of the replacement employee, if any.
- The resulting retirement costs, including interest (if any), and the postretirement healthcare benefits costs, incurred by the district.

326 - AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

.01 The auditor's report on the examination of the supplemental information shall be included in this section of the report. Findings and recommendations are to be included in the Findings and Recommendations section of this report. The information in this report may be added to the auditor's report on the basic financial statements or may appear separately in the auditor-submitted document.

327 - SUPPLEMENTAL INFORMATION

- .01 Required audit of supplemental information consists of:
 - Reconciliation of the CCFS-311 data with the district's accounting records.
 - Schedules of expenditures of federal and State awards.
 - Schedule of workload measure for <u>State General Apportionment</u>.

328 - NOTES TO SUPPLEMENTAL INFORMATION

.01 The notes to the supplemental information are presented in this section of the report and include narrative explanations and information on the individual schedules.

329 - INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

- .01 This report specifies the standards under which the audit was conducted and may address any new accounting standards adopted by the district for the period being audited. It specifically states that the audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The report should address the degree to which compliance with laws, regulations, contracts, and other such documents was tested by the auditor and whether the auditor offers an opinion on that compliance. Finally, the report should address the degree to which the auditor considered the district's internal control over financial reporting, how that may have affected the audit testing and results, and whether any other matters or weaknesses related to internal controls were noted and communicated to the district.
- .02 Reportable deficiencies, recommended corrective actions, and district responses related to internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse as defined in GAO, Government Auditing Standards, 2003 Revision, paragraphs 5.12 through 5.36, shall be included in the Findings and Recommendations section of this report.

.03 When auditors detect deficiencies in internal control that are not reportable conditions or detect inmaterial violations of provisions of contracts or grant agreements or abuse that are communicated in a separate management letter, the auditors should refer to that management letter in the report on internal control and/or report on compliance.

330 - INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.

.01 This report addresses the district's compliance with the requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for Single Audits of States, Local Governments, and Non-Profit Organizations* that are applicable to each of the district's major federal programs identified in the district's Schedule of Expenditures of Federal Awards. The auditor should express an opinion on the district's compliance based on the audit. In addition, the auditor should consider the district's internal control over compliance with requirements applicable to the district's major federal programs and report any identified weaknesses in internal controls in accordance with *OMB Circular A-133* that could materially contribute to the possibility of noncompliance with those requirements.

331 - AUDITOR'S REPORTS ON STATE AND FEDERAL COMPLIANCE

- .01 Separate auditor's reports shall be prepared for the examination of state and federal compliance requirements. The reports shall contain an expression of positive assurance with respect to compliance with applicable laws and regulations for those items tested in accordance with the *Contracted District Audit Manual* and the A-133 *Compliance Supplement* (refer to Section 250 of this Manual), and negative assurance for untested items. Instances of noncompliance with applicable state and federal compliance requirements must be reported in terms of the items or monetary amounts questioned, if any, regardless of the significance, individually or collectively. The report shall contain specific recommendations for corrective action and, if available, the community college district's response to the audit report shall be included in the audit report. Additionally, include the number of FTES claimed for any cited instructional activity(ies) or conditions that impact the FTES claimed by the district for state general apportionment.
- .02 The auditor is reminded that any finding related to compliance requirements may affect the auditor's opinion report on the financial condition of the community college district.

 Therefore, the findings shall be evaluated as to their effects, if any, upon the district's financial statements and supplemental information.

334 - FINDINGS, QUESTIONED COSTS, AND RECOMMENDATIONS

.01 The findings, questioned costs, and recommendations will include matters dealing with internal control, compliance, and supplemental information. Each finding shall be explained in sufficient detail to enable the reader to understand both the magnitude of the deviation, the standard, regulation, or requirement not met, and, where applicable, the effect of the internal control weakness or condition of noncompliance on reports or schedules. Additionally, include the number of FTES claimed for any cited conditions or noncompliance that affect the FTES claimed by

the district for state general apportionment. Findings should also identify repeat findings from the previous year's audit report. The recommendations shall be presented in a manner that will illustrate how corrective action will eliminate the weakness or provide compliance.

.02 This section should also include a "Summary of Auditors' Results. All reportable findings, recommendations and responses shall be included the audit report. If separate management letters have not been issued, so state in the report.

335 - MANAGEMENT LETTERS

.01 A copy of each management letter issued during the audit shall accompany the audit report that is submitted to the Chancellor's Office. <u>Note</u>: The management letters do not need to be a bound component of the audit report.

336 - STATUS OF PRIOR-YEAR FINDINGS AND RECOMMENDATIONS

.01 This section shall include the status of district actions on findings and recommendations reported in the prior-year audit. Any reference to prior-year findings and recommendations shall include the identification references used by the Chancellor's Office during its follow-up activities.

SECTION 400

STATE COMPLIANCE REQUIREMENTS

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400 State Compliance Requirements

410 - OVERVIEW

- .01 In addition to the auditor's reports and fiscal information presented in reviews of basic financial statements, annual audits of governmental agencies, including community colleges, are required to report on compliance aspects of significant state and federal programs. Historically, audit requirements for California Community Colleges have stipulated specific state compliance issues to be reviewed as part of the annual audit.
- .02 With the passage of AB 1725, the California Legislature implemented significant new processes and programs in community colleges: matriculation, articulation, program-based funding, and minimum qualifications. The creation of such areas significantly impact activities districts are required to perform. As a result, auditors need to view existing state compliance items in a context that increases understanding of college operations and lays the foundation for periodic changes in these testing structures.
- .03 Each of the functional areas, Administration, Educational Programs, Student Services, Special Programs, and Facilities, contain separable activities or programs that have their own identity and purpose. Each individual program has unique mandates and other requirements. As college personnel in each functional area work together to implement the general directives, they must also implement the program specific mandates that apply to each of their areas of responsibility. To assist the auditor with understanding this structure and place it on a footing equal to the federal compliance requirements presented in Section 500, state compliance requirements are being presented within the functional structure.
- .04 From the audit procedures performed, the **auditor should report any instances of noncompliance to state requirements as findings** in the annual audit report.
- .05 Regarding sampling size, the auditor should obtain a representative sample sufficient in size to allow the auditor to draw a reasonable conclusion with respect to the requirements.

420 - REQUIRED STATE COMPLIANCE TESTS

.01 Required state compliance tests, organized by functional area, for all districts are as follows:

Functional Area	Required State Compliance Tests
General Directive MIS Implementation:	424 <u>State General Apportionment</u> Required Data Elements
<u>Administration</u>	
	435 - Open Enrollment
	436 - Minimum Conditions-Standards of Scholarship
	437 - Student Fee-Instructional Materials and Health Fees
Apportionments:	423 - Apportionment for Instructional Service Agreements/Contracts

Functional Area	Required State Compliance Tests
Administration (cont.)	
	425 - Residency Determination for Credit Courses
	427 - Concurrent Enrollment of K-12 Students in Community College Credit Courses
	432 - Enrollment Fee
	426 - Students Actively Enrolled
Fiscal Operations:	421 - Salaries of Classroom Instructors: 50 Percent Law
	431 - Gann Limit Calculation
Student Services	428 - Uses of Matriculation Funds
	433 - CalWORKS – Use of State and Federal TANF Funding
Special Programs	429 - Allocation of Costs (DSPS & EOPS)
Educational Services	438 Noncredit Courses
<u>Facilities</u>	434 – Scheduled Maintenance Program

.02 Specific compliance requirements for each test, suggested testing procedures and references for additional clarification are presented in detail below.

421 - SALARIES OF CLASSROOM INSTRUCTORS (50 PERCENT LAW)

.01 Background

Education Code Section 84362, commonly known as the 50 Percent Law, requires that a minimum of 50 percent of the district's Current Expense of Education (CEE) be expended during each fiscal year for "Salaries of Classroom Instructors." Salaries of classroom instructors, as prescribed in California Code of Regulations (CCR), Title 5, Section 59204, means (1) "that portion of salaries paid for purposes of instruction of students by full-time and part-time instructors employed by a district; and (2) all salaries paid to classified district employees who are (a) assigned the basic title of "Instructional Aide" or other appropriate title designated by the governing board that denotes that the employees' duties include instructional tasks, and (b) employed to assist instructors in the performance of their duties, in the supervision of students, and in the performance of instructional tasks." An employee shall be deemed to be under the supervision of an instructor for the purpose of Education Code Section 84362 if the employee performs duties under the general direction of an instructor.

In addition, salaries of classroom instructors shall include the appropriate proportionate share of all benefits provided such instructors and instructional aides (object of expenditure code 3000, as defined in the California Community College Budget and Accounting Manual, 2000 edition).

CEE includes objects of expenditures 1000 through 5000 and Equipment – Replacement for activities 0100 through 6700 in the General Fund, Unrestricted subfund as defined in the California Community Colleges Budget and Accounting Manual, 2000 edition, less expenditures for activity 64XX, Other Student Services – Other (student transportation) and amounts expended for lease of plant and equipment. Note: It is expected that in-kind match will not be included in the district's accounting system and is, therefore, not part of this calculation.

Areas in which questions of compliance have arisen are

- 1. Inclusion in "Salaries of Classroom Instructors" (SCI) of:
 - a. Instructional aides' salaries and benefits.
 - b. Proration of salaries and benefits for administrative staff who teach part time.
 - c. Instructors' "reassigned time" for administrative purposes is not included in SCI.
 - d. Salaries of "Contract Instructors" and proration of these salaries and benefits for the "Contract Instructors" that teach part time.

2. Exclusion from CEE of:

- a. Capital Outlay Expenditures: Equipment Additional
- b. Expenditure of state and federal categorical moneys
- c. Expenditure of State Lottery Proceeds
- d. Proration of salaries and benefits of staff working on activities outside of the CEE

Inclusion in CEE of:

- a. Local match for categorical programs except those expenditures appropriately reflected in other funds.
- b. Expenditures for Equipment Replacement

.02 Criteria

- Education Code Section 84362 and 88242
- CCR, Title 5, Section 59204 and 59206
- Government Code, Section 8880.5(b) and (k), specifies community college districts, as
 a condition for receiving lottery funds shall establish a separate account for the receipt
 and expenditure of those funds.
- Chancellor's Office Legal Opinion O 00-14, "Salaries of Classroom Instructors" Contained in Education code Sections 84362, the "Fifty Percent Law", dated June 12, 2000
- Chancellor's Office Legal Opinion O 04-10, District Ability to Count Amounts Paid to Outside Agencies as "Salaries of Classroom Instructors" under 50% Law
- California Community Colleges Budget and Accounting Manual, 2000 edition
- Form CCFS-311, Supplemental Data, Analysis of Compliance with 50 Percent Law Report and Instructions (Completed report should be obtained from district)
- California Community Colleges, CCFS-311, Worksheet A and/or B (Completed worksheet should be obtained from district)

.03 Compliance Requirement

Each district's salaries of classroom instructors shall equal or exceed 50 percent of the district's current expense of education in accordance with *Education Code* Section 84362. A reportable condition exists if the district does not meet the 50 percent minimum.

.04 Suggested Audit Procedures

1. Test a sample of the personnel duty statements from the personnel records of classified employees (instructional aides) whose salaries and benefits are included in instructor salaries and determine whether such employees are assigned the basic

title of "Instructional Aide" or other appropriate title with the specification to assist instructors in instructional tasks as part of their duties. (Verify proper job classification assigned.) If salaries and benefits were allocated, determine whether the basis for the allocation is reasonable.

- 2. Test that a sample of administrative staff salaries and benefits allocated to "Salaries of Classroom Instructors" are adequately documented and reasonably reflect that portion of time devoted to instruction of students in the classroom. Determine whether the basis for the allocation is reasonable.
- Test a sample of instructors that have non-instructional assignments or that are on reassigned time for administrative purposes and verify that the appropriate allocation of salaries and benefits for these individuals is excluded from SCI. See Chancellor's Office Legal Opinion O 00-14, "Salaries of Classroom Instructors" contained in *Education Code* Section 84362, the "Fifty Percent Law", dated June 12, 2000.
- 4. Select and test a sample of previously untested instructors included in SCI to determine that all such instructors are employed in positions requiring minimum qualifications and that the salaries reported as SCI for those instructors correspond to actual instructional duties required of him or her.
- 5. Test a sample of expenditures for object 6400, Capital Outlay, Equipment. Examine supporting documentation to determine whether the sample expenditures were classified to the proper subsidiary account, i.e. additional equipment or replacement equipment. Expenditures for Equipment–Replacement should be included in CEE while those for Equipment–Additional should be excluded. Replacement equipment is a substitute, or exchange, of an asset for another asset of like kind. It does not extend the asset's life but rather maintains the service level anticipated from the original asset. Additional equipment extends the useful life of an asset, improves the asset's performance, or increases the value of the asset; it is not equipment previously owned (not a substitute for previously owned equipment.)
- 6. Test a sample of state and federal categorical program expenditures from the following programs to determine that they have been excluded from the CEE:
 - a. Disabled Student Programs & Services (DSPS)
 - b. Extended Opportunity Programs & Services (EOPS)
 - c. College Work Study, Vocational Education Technology Act (VTEA)
 - d. Workforce Investment Act (WIA), etc.
- 7. Determine that district lottery funds have been properly excluded from the 50 percent law calculation. Note: In order to verify the proper treatment of lottery funds in the 50 percent law calculation, the district should have established a separate account/subfund to account for the receipt and expenditure of lottery funds in accordance with *Government Code, Section 8880.5(k)*. For 2006-07 audits, the lack of a separate lottery funds account/subfund will again result in a recordkeeping finding.
- 8. Determine whether local matching funds for the above categorical programs/projects have been included in the General Fund's Unrestricted subfund and are thus included in CEE. Items properly excluded from the General Fund Unrestricted subfund include but are not limited to capital outlay items properly accounted for in the Capital Outlay

- Projects Fund, financial aid payments made in the Financial Aid Fund, and child development activities properly accounted for in the Child Development Fund.
- 9. Randomly select line items from Worksheet A and/or B or equivalent document as prepared by the district and agree to financial supporting documentation; recalculate percentage.

423 - APPORTIONMENT FOR INSTRUCTIONAL SERVICE AGREEMENTS /CONTRACTS

.01 Background

A number of community colleges have arrangements, commonly referred to as "instructional service agreements" (ISA), with public and private entities. ISA's are different from contract education. In contract education, the college sends its instructors to provide courses or training to meet the specific needs of the contracting entity. The contracted course or training need not be open to all admitted students, the contractor pays the full cost of instruction and the district does not receive apportionment.

Although ISA's are offered pursuant to an agreement with a third party, they are significantly different from the type of contract education described above because they must be open for the enrollment of all admitted students who meet established enrollment prerequisites. Because instruction offered under an ISA is eligible for apportionment, if apportionment is claimed, numerous standards for the conduct of ISA courses apply. ISA's are often taught by the employees of the contracting party because they may have special expertise. If certain conditions are met, the employees of the contractor can be considered college employees for purposes of satisfying the employment standards for apportionment. ISA's are often mutually beneficial because the instructional costs are shared, individuals with special expertise can be assigned to instruct the courses, and the colleges frequently claim state apportionment. Recently questions have been raised as to whether districts have been fulfilling the requirements in order to claim apportionment for student attendance in courses offered under ISA's.

.02 Criteria

- Education Code Section 84752
- CCR, Title 5, Section 58050, 58051(a)(1), (c)-(g), 58051.5, 58055, 58056, 58058(b), 58060, and 58100-58106.
- Accounting Advisory FS 05-02, Revision of annual CCFS 311 Fifty Percent Law page to accommodate instructional salary expenditures for Instructional Service Agreements.
- Legal Advisory 04-01.5, Instructional Service Agreements, dated March 18, 2004; and the related Contract Guide for Instructional Service Agreements between College Districts and Public Agencies

.03 Compliance Requirement

This compliance requirement applies to instructional service agreements in which:

- 1. The contractor's employees are used to instruct classes, and
- 2. The district is compensating the contractor or the instructor, and
- 3. The district is reporting the FTES from these classes.

Community colleges may claim FTES for classes conducted at a contractor's site and instructed by the contractor's employees, although the classes may also be conducted on college property. In order for these FTES to be eligible for state funding the following regulatory requirements must be met:

- 1. Programs must be approved by the State Chancellor's Office and courses must be part of those approved programs or the college must have received delegated authority to separately approve those courses,
- 2. Courses must be open to all admitted students who meet any approved prerequisites for the courses,
- 3. Students must be under the immediate supervision of a district employee,
- 4. The district employee must possess valid credentials or meet the minimum qualifications required for the assignment, and
- 5. The district and public or private agency, individual, or group of individuals with whom the district has an instructional services agreement may not receive full compensation for the direct education costs for the conduct of the class from any other source.
- 6. For all courses conducted under an instructional services agreement, including those pursuant to *CCR*, Title 5, Section 58058, determine whether the district received certification verifying that the instructional activity conducted was not fully funded by other sources.

.04 Suggested Audit Procedures

- Determine whether the college or district offers instruction under any instructional service agreements. The instructional services agreements may be referred to by different names, including "memoranda of understanding", "instructional contracts", "instructional agreements", etc.
 - Another indicator that a district has ISAs is if the district reported Object Code 5000 - Other Operating Expenses (line EDP 449) on their CCFS-311, Analysis of Compliance with 50 Percent Law report. Only ISA direct instructional costs should be reported in that line item.
- 2. Determine if the district reports FTES for these classes.
- 3. From the above ISA's, select a representative sample of the instructional service agreements to include those generating the largest number of FTES and verify that:
 - a. For agreements using employees of the contracting entity, the college or district has a written agreement or contract with each instructor conducting instruction

- for which FTES are to be claimed. The contracts must state that the college or district has the primary right to control and direct the instructional activities of the instructor. The contract between the college or district and the instructor should be finalized prior to the commencement of instruction.
- b. The written agreement with the contractor states the responsibilities of each party and that the college or district is responsible for the educational programs conducted under the agreement.
- c. The courses are part of an approved program or a stand-alone course approved by the college through its delegated authority.
- d. The courses are open to all admitted students who meet approved prerequisites for the course and published in the official general college catalog and/or the schedules of classes and/or addenda.
- e. The minimum qualifications for instructors teaching these courses are consistent with instructor qualifications for other similar courses given at the college or district.
- f. The instructors meet the minimum qualifications to teach the courses being taught. Minimum qualifications are met if a person has a valid, unrevoked credential or meets minimum qualifications adopted by the Board of Governors for the particular discipline. (*CCR*, Title 5, Section 58060, and 53400 et. seq.)
- g. The college or district exercises control and supervision over the educational program(s). This may be demonstrated by a variety of activities, including instructor orientation and training, ongoing communications with instructors (i.e. memos, faculty manuals, and on-site supervision), and course and instructor evaluations. (Activities should be consistent with those the college or district performs for instructional activities taught by a paid part-time instructor on campus).
- h. The college and/or district did not receive full compensation for the direct education costs of the class from any public or private agency, individual, or group of individuals.
- i. The public or private agency, individual, or group of individuals with whom the district has a contract and/or instructional agreement did not receive full compensation for the direct education costs for the conduct of the class.
- j. For classes that are not fully funded under contracts described in *item i* above and are claimed for apportionment purposes, the district must require the contracting entity to certify that the direct education costs of the activity are not being fully funded through other sources.
- 4. <u>A reportable condition exists if the college or district lacks the appropriate</u> documentation to support the following:
 - a. Appropriate instructional services agreements exist,
 - b. The educational program is under the control and direction of the college or district,
 - c. The classes are open to all admitted students who meet approved prerequisites,
 - d. The instructors meet minimum qualifications,

- e. Either the course is part of a program approved by the Chancellor's Office, or the college has received delegated authority to separately approve those courses, or
- f. The district has failed to obtain the required certifications described in *item 3j* above.

Additionally, include the number of FTES claimed for the instructional activity(ies) included in any conditions cited.

424 - STATE GENERAL APPORTIONMENT FUNDING SYSTEM REQUIRED DATA_ELEMENTS

.01 Background

Effective July 1991, the *CCR*, Title 5, Division VI, Chapter 9, Subchapter 8, Program-Based Funding, set forth a new basis for the Board of Governors' allocation of the state general apportionment revenues. The funding formula has various workload measures for different categories of operation to determine the amount of funding a district will receive.

Effective fiscal year 2006-07, program based funding was replaced with the SB 361 funding model. Workload measures and related testing simplified as a result.

<u>Full-Time Equivalent Student (FTES)</u>, credit and noncredit, are the workload measures for the SB 361 funding model.

CCR, Title 5, Sections 58020 through 58024, continues to require the district to maintain a detailed documentation to substantiate the data reported on the "Apportionment Attendance Report" Form CCFS-320, and "Apprenticeship Attendance Report," Form CCFS-321. Each district governing board is required to adopt procedures to document all course enrollment, attendance and disenrollment as required by *CCR*, Title 5, Sections 58020-58024. These procedures shall include rules for retention of support documentation that would enable independent determination of the accuracy of data submitted by the district as a basis for state support. Such procedures must be structured to provide for internal controls. Suggested information to supplement the documentation of each course should include, but is not necessarily limited to:

- 1. The signature of the instructor on all primary attendance accounting documents as a certification of a true and accurate accounting, and
- 2. Any pertinent information concerning courses that have atypical characteristics or requirements (e.g., lab hours, hours to be arranged [TBA], intercollegiate athletics, field trips).

Thus, the evaluation of required data elements documentation concerns not only the test of the validity of the information so documented, but also of the system used to generate that information.

.02 Criteria

- CCR, Title 5, Section 58003.1, 58003.4, 58020, 58022, 58024, and 58030
- Education Code Section 8152

- Labor Code, Section 3074
- Data Element Dictionary for California Community Colleges Management Information System.
- Space Inventory Handbook, California Community Colleges, 2000

SB 361 specific:

Education Code, 84750.5 and 84760.5

CCR, Title 5, Section 58770, 58771, 58773, 58774, 58776, 58777, 58779, and 58785

.03 Compliance Requirements

Each district shall have the ability to support timely, accurate and complete information for the following workload measures used in the calculation of State General Apportionment:

- 1. Credit Full-Time Equivalent Student (FTES) in weekly census, daily census, actual hour of attendance and Apprenticeship courses.
- 2. Noncredit FTES in actual hour of attendance and distance education courses.
- Credit Student Headcount Data.
- 4. Gross Square Footage and FTES in less than 100% leased space.

.04 Suggested Audit Procedures - Credit Full-Time Equivalent Student

Examine selected *primary support documentation* for student attendance reported in each period defined in *CCR*, Title 5, Section 58003.4, and determine whether a separate tabulation containing all required information is maintained for each course section.

1. Weekly or Daily Census Procedures:

For courses subject to census procedures, a separate course section tabulation is required for each of the census categories. Each tabulation shall provide a detailed listing for the census date as follows:

- a. Identification for either daily census or weekly census:
 - (1) Static course identifier code.
 - (2) Section identifier code.
 - (3) Title.
 - (4) Method of instruction code.
- b. Length of Course:
 - (1) Number of days the daily census course is scheduled to meet or number of weeks the weekly census course is scheduled to meet.
 - (2) Frequency of course meetings.
 - (3) Number of class hours (including TBA hours) each daily course section is scheduled to meet on the census day or number of class hours (including TBA hours) each weekly census course section is scheduled to meet during the census week.
 - (4) Beginning and ending dates of course section.
- c. Date of census day.
- d. An alphabetical list of each student actively enrolled in each section indicating:
 - (1) Name (last, first, middle initial).
 - (2) Student identification code.

- (3) Residency category.
- 2. <u>Actual Hours of Attendance Procedures</u>: (For each class category as applicable, described in *CCR*, Title 5, Section 58006.)

For actual hours of attendance courses, each section tabulation shall provide a detailed listing as follows:

- a. Identification:
 - (1) Static course identifier code.
 - (2) Section identifier code.
 - (3) Title.
 - (4) Method of instruction code.
- b. Number of days the course section is scheduled to meet.
- c. Number of class hours the course section is scheduled to meet.
- d. Beginning and ending dates of course section.
- e. An alphabetical list of each student actively enrolled at any time during the course section indicating:
 - (1) Name (last, first, middle initial).
 - (2) Student identification code.
 - (3) Residency category.
 - (4) Actual student hours of attendance.
- 3. Independent Study and Work Experience Courses

For independent study or work experience courses, each course section tabulation shall provide a detailed listing as follows:

- a. Identification:
 - (1) Static course identifier code.
 - (2) Section identifier code.
 - (3) Title.
 - (4) Method of instruction code.
- b. Length of Course:
 - (1) Number of weeks the course section is scheduled to meet for weekly census courses only.
 - (2) Number of days the course section is scheduled to meet for daily census courses only.
 - (3) Date of census day.
 - (4) Beginning and ending dates of course section.
- c. An alphabetical list of each student actively enrolled in each course section indicating:
 - (1) Name (last, first, middle initial).
 - (2) Student identification code.
 - (3) Residency category.
 - (4) Scheduled units of credit for which enrolled in credit courses.
 - (5) Scheduled hours of coursework for noncredit distance learning.
- 4. Apprenticeship Classes of Related and Supplemental Instruction
- 5. Determine whether each tabulation provides a grand total of student contact or actual clock hours generated by residency category.

425 - RESIDENCY DETERMINATION FOR CREDIT COURSES

.01 **Background**

District internal fiscal controls should ensure that state apportionment for credit courses is only claimed for student attendance allowed by statute and regulation. Student residence at the time of registration is a major factor for allowing districts to claim state apportionment for credit courses.

.02 Criteria

- Education Code Sections 68000-68044, 68050-68080, 68082, 68100, 68130, 76140, 76140.5, and 76143
- *CCR*, Title 5, Sections 54000-54072
- California Community Colleges, Student Attendance Accounting Manual (SAAM)

.03 Compliance Requirement

Each district must act to ensure that only the attendance of California residents is claimed for State support of credit classes.

.04 Suggested Audit Procedures

- 1. Test the supporting residency documentation ((hardcopy.and/or electronic) of a sample of students in credit courses to determine whether each student has been properly classified as either a "resident" or a "nonresident."
- 3. Review the selected credit course section tabulations for the students in the above sample to determine whether the attendance of nonresidents has been claimed for State support.

426 STUDENTS ACTIVELY ENROLLED

.01 Background

For attendance accounting purposes, districts are required to clear the rolls of all inactive students as of each course section's drop date. The drop date shall be no later than the end of business of the day immediately preceding the beginning of the census week in weekly census procedure courses, or the day immediately preceding census day in daily census procedure courses, and is the date used to clear the rolls of the inactive enrollment for attendance accounting purposes. For noncredit distance learning courses, the drop date to clear the rolls of inactive students shall be the day prior to each of the two census dates.

.02 Criteria

- CCR, Title 5, Sections 58003.1, 58004, 58005, and 58051
- Student Attendance Accounting Manual (SAAM), California Community Colleges, pages 1.02-1.04

.03 Compliance Requirement

Each district shall claim for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date (if census procedures are used to record attendance in the course section).

.04 Suggested Audit Procedures

- For weekly census procedure courses, review course schedules to determine that applicable credit courses were scheduled coterminously with the primary term and that the correct census weeks were used in computing contact hours of enrollment. Census week is the week nearest one-fifth of the number of weeks of the primary term. (Each week counted shall include at least three days of instruction or examination, exclusive of mandatory or local holidays.)
- 2. For daily census procedure courses, review credit course schedules to determine that the correct census day was determined as that nearest one-fifth of the number of sessions for which the course is scheduled to meet, exclusive of mandatory or local holidays.

<u>Note</u>: For short-term daily census courses where the census falls on the first day of the course, the enrollment is to reflect the active enrollment as of the end of the first day, and the census is on the second day.

- 3. For noncredit distance learning (independent study) courses, determine that the correct census dates were at the points nearest the one-fifth and three-fifths of the length of the course.
- 4. Test supporting disenrollment records to see whether they substantiate the count of active enrollment recorded on selected census procedure course tabulations.

As of the last day of business preceding census day, any student who has:

- a. Been identified as a no show, or
- b. Officially withdrawn from the course, or
- c. Been dropped from the course

shall not be considered actively enrolled in the course pursuant to CCR, *Title 5*, Section 58003.1 and 58004.

427 - CONCURRENT ENROLLMENT OF K-12 STUDENTS IN COMMUNITY COLLEGE CREDIT COURSES

.01 **Background**

Existing law authorizes the establishment of community college districts under the administration of community college governing boards, and authorizes these districts to provide instruction at community college campuses throughout the state. The governing board of a school district may authorize kindergarten through 12th grade (K-12) pupils who would benefit from advanced scholastic or vocational work, upon recommendation of the principal of the pupil's school of attendance, and with parental

permission, to attend community college as special part-time or full-time students to undertake one or more courses of instruction at the community college level.

.02 Criteria

- Education Code Sections 48800–48802, 76000–76002, and 84752
- *CCR*, Title 5, Sections 51004, 51006, 51021, 53410, 55002, 55100, 58100–58108, 58050, 58051(a)(1), 58051.5, 58052, 58056(a), 58058, 58060, and 59300 et seq.
- Legal Opinions M 98-17 and M 02-20 issued by the Chancellor's Office, California Community Colleges.
- Legal Advisory 05-01, "Questions and Answers Re. Concurrent enrollment" issued January 5, 2005 by the Chancellor's Office, California Community Colleges.

.03 Compliance Requirements

A community college district may claim FTES for the attendance of K-12 pupils who take courses offered by the district under this concurrent enrollment arrangement only if it complies with all the following:

- Education Code Section 76002(a) specifies that for purposes of receiving state
 apportionments, a community college district may include high school pupils who
 attend a community college within the district pursuant to Sections 48800 and 76001
 in the district's report of full-time equivalent students (FTES) only if those pupils are
 enrolled in community college classes that meet all the following criteria:
 - a. The class is open to the general public.
 - b. The class is advertised as open to the general public in one or more of the following:
 - i. The college catalog.
 - ii. The regular schedule of classes.
 - iii. An addenda to the college catalog or regular schedule of classes.
 - c. If a decision to offer a class on a high school campus is made after the publication of the regular schedule of classes, and the class is solely advertised to the general public through electronic media, the class shall be so advertised for a minimum of 30 continuous days prior to the first meeting of the class.
 - d. If the class is offered at a high school campus, the class may not be held during the time the campus is closed to the general public, as defined by the governing board of the school district during a regularly scheduled board meeting.
- 2. If the class is a physical education class, no more than ten percent of its enrollment may be comprised of special part-time or full-time students. In the view of the Chancellor's Office, this ten percent limit serves as a limit on how many students may be claimed for apportionment in each course section, not how many may actually be enrolled in a class section. In addition, a community college district may not receive state apportionments for special part-time and full-time students enrolled in physical education courses in excess of five percent of the district's total reported FTES of special part-time and full-time students.

- 3. The district must comply with the credit course approval requirements of CCR, Title 5, Sections 51004, 51021, 55002(a) or (b), 55100, and 58050. Courses are not eligible for apportionment if they have not been properly approved by the district and, where applicable, by the Chancellor's Office, or are not taught in accordance with a locally established course outline.
- 4. The district must comply with the instructor supervision requirements of *CCR*, Title 5, Sections 55002(a)(4), 55002(b)(4), 58050, 58051(a)(1), 58052, 58056, 58058 and 58060 and the instructor qualification requirements of section 53410 and 58060. Educational activities of students used in computing FTES must be under the immediate supervision and control of an academic employee of the district who is authorized to render service in that capacity. Immediate supervision requires the presence of the authorized employee and is characterized by all of the following:
 - a. The employee is able to provide immediate instructional supervision and control, in terms of physical proximity and range of communication and
 - b. The employee is in a position to provide supervision and control for the protection of the health and safety of students; and
 - c. The authorized employee does not have any other assigned duty during the instructional activity for which attendance is being claimed.
- 5. For courses taught under a contract with a public or private agency as provided in *CCR*, Title 5, Section 58058, a district must have contracts both with the agency and with the individual who will provide the instruction. Both contracts must specify that the community college district has the primary right to control and direct the activities of the person providing the instruction. The requirements concerning immediate instructional supervision and control apply fully to those persons who provide instruction under these special contracts. If all the conditions are met, the person furnished by the public or private agency remains an employee of the agency, but is considered an "employee of the district" for the limited purpose of rendering instructional service during the term of the contract. In all cases, including the special contracting system, employees of the district who teach credit courses must meet the minimum qualifications for community college instructors. In most cases, the minimum qualification is the possession of a master's degree in the discipline of the instructor's assignment, or the equivalent.
- 6. Per Education Code Section 84752, no community college district shall receive FTES funding for activities that are fully funded through another source. If a contract between a community college and a K-12 school district contains provisions that the K-12 school district will pay the community college for the full costs of offering a particular course, the community college district cannot claim apportionment for the course.
- 7. Per *Education Code* Section 48800, for summer sessions, K-12 principals may not recommend more than five percent of the number of pupils who have completed a particular grade immediately prior to the time of the recommendation. In addition:
 - a. Recommended pupils must demonstrate adequate preparation in the discipline to be studied.

- b. The pupil must exhaust all opportunities to enroll in an equivalent course, if any, at his or her school of attendance.
- 8. Per *Education Code* Section 76001(d), special part-time students may enroll in up to 11 units per semester.
- 9. Per *Education Code* Section 76002 (b), the governing board of a community college district may restrict the admission or enrollment of a special part-time or full-time student during any session based on any of the following criteria:
 - a. Age.
 - b. Completion of a specified grade level.
 - Demonstrated eligibility for instruction using assessment methods and procedures established pursuant to *Education Code* Sections 78210 – 78300 and regulations adopted by the Board of Governors of the California Community Colleges.

- For concurrent enrollment attendance claimed by the community college district for state apportionment, test a representative sample of the courses generating the greatest number of concurrent enrollment FTES. Include the number of FTES claimed for the instructional activity(ies) of any conditions cited for the following:
 - Note: Request Data Mart data element: SB11, Student Education Status from District management information system to identify special admit students currently enrolled in K-12.
 - a. Determine if courses were open to the general public as evidenced by a clear and understandable description of the course published in the official catalog, and/or schedule of classes, and/or addenda. (*Education Code* Section 76002 and *CCR*, Title 5, Sections 51006, 58050, 58051.5, and 58102–58108).
 - b. If a decision to offer a class on a high school campus is made after the publication of the regular schedule of classes, and the class is solely advertised to the general public through electronic media, the class must be so advertised for a minimum of 30 continuous days prior to the first meeting of the class.
 - Reference Legal Advisory 05-01, question 7.
 - c. Determine if the registration procedures for courses had the purpose or effect of limiting enrollment to a specialized clientele such as K-12 pupils. The governing board of a community college district may restrict the admission or enrollment of a special part-time or full-time student during any session based on age, completion of a specified grade level, or demonstrated eligibility for instruction using assessment methods and procedures established pursuant to Education Code Sections 78210 78300 and regulations adopted by the Board of Governors of the California Community Colleges.
 - d. Determine if courses received necessary approvals and were taught in accordance with the applicable outline of record. (*CCR*, Title 5, Section 51004, 51021, 55002, and 55100 et seq.)

- e. Determine if the instructor teaching each course satisfies applicable minimum qualifications. (*CCR*, Title 5, Sections 53410 et seq. and 58060)
- f. Determine if instruction for each course was conducted under the immediate supervision and control of the responsible district employee. (CCR, Title 5, Section 58056)
- g. For all courses conducted under a contractual agreement pursuant to *CCR*, Title 5, Section 58058, determine that the district has an appropriate contract with both the public or private agency and with the employee furnished by that agency.
- h. For all courses conducted under a contractual agreement, including those pursuant to *CCR*, Title 5, Section 58058, determine whether the district received certification verifying that the instructional activity conducted was not fully funded by other sources. Where no contract exists, determine whether the district obtained such a certification or can otherwise demonstrate that the instructional activity conducted was not fully funded by other sources. (*Education Code* Section 84752 and *CCR*, Title 5, Section 58051.5)
- Verify that any special admit K-12 students present in the course sample are enrolled in no more than 11 units per semester and that the district has obtained verification from the K-12 school district that the student can benefit from advanced scholastic or vocational work. (Education Code, Sections 48800(a), 48800.5, and 76001(d))
- 3. Determine that the district has not received state apportionment funding for special part-time and full-time students enrolled in physical education courses in excess of five percent of the district's total reported FTES enrollment of special part-time and full-time students. (*Education Code* Section 76002(a)(4))
- 4. For physical education course sections, determine that not more than ten percent of the enrollment **claimed** for apportionment for each course section consists of special part-time or full-time students. (*Education Code* Section 76002(a)(4))
- 5. For summer session attendance, determine if the district has procedures to require K-12 principal(s) certify that they have not recommended for community college attendance more than five percent of the total number of pupils who completed that grade immediately prior to the time of recommendation. (Education Code Section 48800 (bd)(2)
 - a. Auditor may test other documentation maintained by the District aside from certifications; however, contemporaneous evidence should provide similar assurances.

428 - USES OF MATRICULATION FUNDS

.01 Background

"Matriculation" means a process that brings a college and a student who enrolls for credit into an agreement for the purpose of realizing the student's educational goals through the college's established programs, policies, and requirements. Colleges are responsible for providing: an admissions process; an orientation to college services and procedures; pre-

enrollment assessment and counseling; advisement and counseling in the selection of courses; a suitable curriculum or program of courses; follow-up on student progress, with referral to support services when needed; and a program of institutional research and evaluation.

Students are responsible under the agreement to express a broad educational intent upon enrollment, and to declare a specific educational objective within a reasonable time after enrolling. The commitment of the college to provide matriculation is based on the assumption that students will be diligent in class attendance, complete assigned course work, and maintain progress toward an educational goal according to standards set by the college.

State funds to support matriculation activities were first authorized by the enactment of the Seymour-Campbell Matriculation Act of 1986 through Chapter 1467 of the California Statutes of 1986. *CCR*, Title 5, Section 55518(b) subsequently specified that each dollar of state matriculation funding should be matched by three dollars of other district matriculation resources. Additionally, the budget act for any given year may authorize a specific proportion of the appropriated matriculation funding to be allocated on a one-to-one matching fund basis to provide matriculation services in designated noncredit classes and programs.

Per *CCR*, Title 5, Section 55512 (b), each district shall provide for a review of the revenue and expenditures of the matriculation program as part of its annual financial audit.

Activities claimable against state matriculation funds include:

- 1. Admissions and records
- 2. Student exemption features
- 3. Assessment procedures
- 4. Orientation
- 5. Counseling and advisement
- 6. Assistance in developing a student's educational plan
- 7. Post enrollment evaluation of each student's progress
- 8. Referral of students to available support services
- 9. Referral of students to specialized curriculum offerings
- 10. Other (With Chancellor's Office written permission)

Noncredit Matriculation Services

In 1997, additional legislation and budget act language (AB 1542, AB 107) extended the provisions of matriculation services to students enrolled in designated noncredit classes, courses, and programs and appropriated \$10 million to this effort.

The fiscal year 1897-98 budget act specified that "\$10,000,000 shall be allocated to community college districts on a one-to-one matching fund basis to provide matriculation services t include, but not be limited to, orientation, assessment, and counseling for students enrolled in [designated] noncredit classes and programs who may benefit most, as determined by the Chancellor of the California Community Colleges pursuant to Sections 78216 to 78218, inclusive, of the *Education Code*."

Education Code Section 72620.5, added by AB 1542, Section 16, reads "Commencing with the 1997-98 fiscal year, community college districts, to the extent that funding is provided in the Annual Budget Act may provide counseling and matriculation services for students enrolled in credit courses and students enrolled in noncredit courses, according to a

welfare-to-work plan a provided in Section 11325.21 of the Welfare and Institutions code."

Expenditures eligible for inclusion in the calculation of district contribution include personnel, supplies and equipment costs related to the above activities including the entire cost of the district's admissions and registration processes. No FTES-generating activities may be counted toward the district match with the exception of orientation courses and career/life planning courses, or other courses specifically identified in the matriculation plan and approved by the Chancellor's Office. Federal categorical funds, such as Vocational Education, as expended on matriculation activities shown in the plan may be counted toward the district match. State categorical program expenditures, such as EOPS and DSPS, may not be reported as part of the district's 75 percent match requirements for credit matriculation, or toward the dollar-for-dollar match requirement for noncredit matriculation funding. Budget act language, beginning in fiscal year 1997-98, requires districts to provide a dollar-for-dollar match for noncredit funding.

.02 Criteria

- Education Code Sections 78210-78218
- CCR, Title 5, Sections 51024, 55500-55534, and 58106

.03 Compliance Requirement

Districts are required to use local funds to support at least 75 percent of the credit matriculation activities with the remaining expenditures claimable against the state credit matriculation allocation. All expenditures related to the allocation, both State and local funded portions must be consistent with the district's state-approved matriculation plan and identifiable within the ten activities listed above. This 25 percent state funds, 75 percent local funds ratio applies district-wide not per college or within individual activity groups.

- Contact the matriculation coordinator to review the state approved matriculation plans for credit and noncredit, and discuss any modifications and matriculation-related activities not identified in the plan. Colleges or districts are required to report any changes to their credit and/or noncredit plans and to submit plan revisions/updates to the Chancellor's Office for approval.
- 2. Determine the amount of district matriculation-related expenditures for the current year exclusive of those funded by state categorical moneys.
- 3. Verify that actual activities from the current year can be categorized in one or more of the ten activities listed above for credit, and at a minimum, Orientation, assessment and counseling for noncredit.
- 4. Trace a sample of the reported expenditures to their supporting documentation.
- 5. Verify that total expenditures exceed four times the amount claimed for state reimbursement to confirm the fulfillment of 75/25 match requirements for credit, and the dollar-for-dollar requirement for noncredit.
- Reportable instances occur either if claimed activities are not consistent with allowable activities or if total expenditures for matriculation-related activities are not at least four times the amount of state matriculation allocation received for credit, and the dollar-for-

dollar requirement for noncredit.

429 - ALLOCATION OF COSTS (DSPS & EOPS) (Rotated out, April 2007)

430 – EOPS Administrator/Director Requirements (Rotated out, April 2006)

431 - GANN LIMIT CALCULATION (Reinstated April 2007)

.01 Background

Article XIII-B of the California Constitution and Chapter 1205, Statutes of 1980, require each community college to compute its annual appropriation limit. Each limit is adjusted annually for changes in price index, population and, if applicable, other factors. CCR Section 58303 indicates that the district's adopted budget shall also include the appropriations limit and the total annual appropriations subject to limitations. Government Code, Section 7908(c) requires each community college district to report to the Chancellor of the California Community Colleges and to the Director of the Department of Finance at least annually its appropriation limit, appropriations subject to limit, state aid apportionments, subventions included within property tax proceeds and amounts excluded from the appropriations subject to limit. This information is reported in the Annual Financial and Budget Report, CCFS-311, Part 2 General Fund Supplemental Data.

.02 Criteria

- Article XIII-B, Section 1.5, of the California Constitution.
- Proposition 111, effective July 1, 1990.
- CCR, Title 5, Section 58303.
- Government Code Section 7908(c).

.03 Compliance Requirement

Each district's adopted annual financial and budget report shall include the appropriations limit and the total annual appropriations subject to limitation as determined pursuant to Government Code Division 9 (commencing with Section 7900). The calculation and adoption shall be verified by certified public accountants as part of annual financial audits.

- 1. Obtain the Gann Limit Worksheet for the current fiscal year from the district business office and compare the summary figures reported in the CCFS-311 with the Gann Limit Worksheet totals.
- 2. Test the calculations performed on the worksheet.
- 3. Trace the source figures used on the current year's worksheet back to the source documents. For instance, previous years' attendance figures are available on the CCFS 320s. Line 1.A., the previous year's Apportionment Limit including state transfer, is an accumulation of previous years' calculations; hence, that amount should be traced

back to the total from the previous year's worksheet but it is not necessary to trace that amount back through the numerous worksheet calculations since 1980.

<u>Note</u>: With the change in reporting requirements, the worksheet calculations do not need to be certified by the district's governing board.

4. Reportable errors exist if calculations are significantly in error or if source figures are summarized inaccurately.

432 - ENROLLMENT FEE

.01 **Background**

Students attending credit classes at any California community college must pay an enrollment fee of \$18 per semester unit (\$12 per quarter unit) or, for students of a contiguous state meeting specific requirements, \$42 per course unit.

For the fall term of 2004-05 and subsequent terms, the enrollment fees for semester unit and quarter unit have increased. The enrollment fees have been increased to \$26 per semester unit and \$17 per quarter unit.

Effective January 1, 2007, enrollment fees reduced to \$20 per semester unit (\$13 per guarter unit).

.02 Criteria

- Education Code Section 76300, 76140(k), and 84757
- Form CCFS-323, Actual Enrollment Fee Revenue Report (obtain copy from district)
- Form CCFS-311, Annual Financial and Budget Report (obtain copy from district)
- Accounting Advisory No. 98-02, dated April 13,1998
- Chancellor's Office Legal Opinion O 02-15, "Uncollected Enrollment Fee Revenue"
- Budget and Accounting Manual (BAM), Ch. 3, pg. 3.36, Local Revenue Account 8874 "Enrollment"

.03 Compliance Requirement

Unless expressly exempted, or entitled to a waiver, all students enrolling for college credit must pay the enrollment fee. According to the BAM (pg. 3.36), enrollment fee revenue includes the full amount of the fees charged, regardless of whether the fees are collected. Accounts receivable must be established to record the revenue on enrollment fees charged for the spring term or earlier if such fees are not collected by year-end. Uncollectible fees are accounted for as an expense of the district and not an abatement of enrollment fee revenue. Subsequent recovery of accounts that have been written-off should be recorded as Other Local Revenue and not enrollment fee revenue. Community college districts are required to report their total enrollment fee revenue for purposes of determining each district's share of the annual general apportionment.

If courses begin before the close of spring term, the related enrollment fees are recorded as revenue in the current fiscal year. Enrollment fees charged for instructional periods after the close of the spring term are recorded as deferred revenue in the current fiscal year.

- 1. For purposes of apportionment, students enrolled in the following noncredit courses designated by Education Code Section 84757, are exempt from the enrollment fee:
 - a. Parenting, including parent cooperative preschools, classes in child growth and development and parent-child relationships.
 - b. Elementary and secondary basic skills and other courses and classes such as remedial academic courses or classes in reading, mathematics, and language arts.
 - c. English as a second language.
 - d. Classes and courses for immigrants eligible for educational services in citizenship, English as a second language, and work force preparation classes in the basic skills of speaking, listening, reading, writing, mathematics, decision making and problem solving skills, and other classes required for preparation to participate in job-specific technical training.
 - e. Education programs for persons with substantial disabilities.
 - f. Short-term vocational programs with high employment potential.
 - g. Education programs for older adults.
 - h. Education programs for home economics.
 - i. Health and safety education.
- 2. California State University or University of California students enrolled in remedial classes provided by a community college district on a campus of the University of California or campus of the California State University, for whom the district claims an attendance apportionment pursuant to an agreement between the district and the California State University or the University of California. (*Education Code* Section 76300(e)(2))
- 3. Students enrolled in credit contract education, if the entire cost of the course, including administrative costs, is paid by the public or private agency, corporation, or association with which the district is contracting and if these students are not included in the calculation of the FTES of that district. (*Education Code* Section 76300(e)(3))
- Special part-time students enrolled in educational enrichment classes for students who
 would benefit from advanced scholastic or vocational work may be exempted from the
 enrollment fee at the discretion of the governing board. (Education Code Sections
 76001, 76300(f) and 48800)
- 5. Students who, at the time of enrollment, are recipients of benefits under the Temporary Assistance to Needy Families Program, the Supplemental Security Income/State Supplementary Program, or a general assistance program or have demonstrated financial need in accordance with the methodology set forth in federal law or regulation for determining the expected family contribution of students seeking financial aid. Also included are students eligible for Board of Governors grants. (*Education Code* Section 76300(g) and *CCR*, Title 5, Section 58620).
- 6. Any student who, at the time of enrollment is a dependent, or surviving spouse who has not remarried, of any member of the California National Guard who, in the line of duty

and while in the active service of the state, was killed, died of a disability resulting from an event that occurred while in the active service of the state or is permanently disabled as a result of an event that occurred while in the active service of the state. "Active service of the state," for the purposes of this subdivision, means a member of the California National Guard activated pursuant to Section 146 of the Military and Veterans Code. (Education Code Section 76300(h))

- 7. Any student in an undergraduate program, including a student who has previously graduated from another undergraduate or graduate program, who is the dependent of any individual killed in the September 11, 2001, terrorist attacks on the World Trade Center in New York City, the Pentagon building in Washington, DC, or the crash of United Airlines Flight 93 in southwestern Pennsylvania, if he or she meets the financial need requirements for the Cal Grant A Program and either of the following apply:
 - a. The dependent was a resident of California on September 11, 2001, or
 - b. The individual killed in the attacks was a resident of California on September 11, 2001.

The waivers provided in item 7 above are available until January 12, 2013, or until the dependent of the individual killed in the terrorist attacks of September 11, 2001, reaches the age of 30 years old. (*Education Code* Sections 76300(j), (k), (l))

- Determine whether the district's enrollment fee revenue for all eligible students taking
 qualified classes includes revenue accrued as accounts receivable but not collected
 from the students. Districts may not net uncollected fee revenue against their report of
 fees collected or net write-offs against current year revenues. Netting uncollectible
 receivables is an audit citing.
- 2. [For districts with boundaries within 10 miles of another state that has a reciprocity agreement with California governing student attendance and fees.] If the attendance of nonresident students who have been exempted from the nonresident fee is reported by the district as resident FTES for state apportionment purposes, determine that such students pay \$42 per course unit and that such revenue is included in the total enrollment fee revenue reported to the state as part of their total enrollment fee revenue. The following nonresident students may be reported as residents for state apportionment:
 - a. The nonresident student attends a community college district that has less than 1,500 FTES and whose boundary is within 10 miles of another state that has a reciprocity agreement with California governing student attendance and fees, or
 - b. The nonresident student's attendance is part of up to 100 FTES for nonresident students from a contiguous state who are enrolled in a California community college district that has more than 1,500, but less that 3,001 FTES and whose boundary is within 10 miles of another state that has a reciprocity agreement with California governing student attendance and fees.
- 3. Determine whether the district is reporting enrollment fees collected in the spring for enrollment in fall course sections as deferred revenue. These fees should be deferred.

- 4. Determine whether the district is reporting fees collected for the summer term as revenues in the following fiscal year. These fees should be reported as revenues in the fiscal year following the summer term.
- 5. Determine that the enrollment fees reported by the district have not been reduced by the 2% adjustment allowed the districts for administrative costs. The Chancellor's Office reduces the total fees reported by 2% when calculating the district's apportionment.
- 6. Compare the figures reported on the CCFS-311 with the figure reported on the CCFS-323 and reconcile any material differences.
- 7. Examine the amounts reported on the CCFS-311 and ensure that the amounts reported are in accordance with the instructions for completion of the report and not net figures.
- 433 California Work Opportunity and Responsibility to Kids (CalWORKs) Use of CalWORKS State Funds and CalWORKs Federal Temporary Assistance for Needy Families (TANF) Funds

.01 Background

Community College CalWORKs funds are appropriated through the annual State budget and consist of both State and Federal sources. These CalWORKs funds are allocated to provide assistance to welfare recipient students and those in transition off of welfare to achieve long-term self-sufficiency through coordinated student services offered at community colleges. The Federal TANF funds are also used to fund additional fixed, variable, and one-time costs for providing support services and instruction for CalWORKs students.

CalWORKs funds may be used to provide: Work-Study, Child Care, Coordination, Job Development/Job Placement, Curriculum Design/Redesign, or Instruction. Community College CalWORKs was first authorized in the State Budget Act of 1997 and is reauthorized each year in the annual Budget Act. Specific legal requirements for the use of CalWORKs State funds can be found in the Education Code and State Budget Act. In addition, the Chancellor's Office has issued clarifying guidelines on the appropriate use of fund and other program requirements through the CalWORKs Program Handbook. Colleges must submit an annual plan to the Chancellor's Office on how the funds will be utilized to provide specialized services to the CalWORKs student population.

.02 Criteria

- Education Code Sections 79200-79203 & 84759
- 2005-06 Final Budget Summary, Page 575, Item 6870-101-0001, Provision 14; and Page 587, Item 6870-111-0001, Provision 2.
 http://www.documents.dgs.ca.gov/osp/GovernorsBudget05/pdf/fbudsum_05.pdf
- Chancellor's Office CalWORKs Program Handbook Guidelines 2005
- Clarification on CalWORKs Supplantation Prohibition, Chancellor's Office Letter, March 13, 2006
- OMB A-133 Compliance Supplement

.03 Compliance Requirement

Districts are required to expend CalWORKs Program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKs students.

.04 Suggested Audit Procedures

- 1. Determine that CalWORKs program expenditures reported to the Chancellor's Office agree with district accounting records.
- 2. Select a sample of the reported State and Federal CalWORKs expenditures and verify:
 - a. Expenditures from the current year directly provide support to eligible CalWORKs recipient-students.
 - b. Expenditures are related to at least one of the following CalWORKs program components: (a) Work Study, (b) Curriculum Development, (c) Coordination includes case management and counseling, (d) Job Placement/Job Development, (e) Instruction, and (f) Child Care.
 - c. Expended CalWORKs State funds have not supplanted existing college funding and services for the general student population and that the CalWORKs funds have been used for allowable expenses to target the needs of the CalWORKs student population. Refer to the Chancellor's Office CalWORKs Supplantation Guidelines for additional criteria to determine if a supplantation issue exists and the CalWORKs Program Handbook Guidelines for a description of allowable costs.
- Obtain a listing of students served through the CalWORKs program and a select sample of students and determine whether the students were eligible for CalWORKs program services. Examine the CalWORKs student file and verify whether county welfare department eligibility is documented.
 - a. For any students served through the program whose files did not contain appropriate eligibility documentation, determine the amount of CalWORKs/TANF funds expended on the student(s) to quantify the potential funds that the district may have to repay to the Chancellor's Office.

<u>Note</u>: CalWORKs recipients are adult students who are receiving cash aid and have or are in the process of developing a welfare-to-work plan - eligibility must be documented through the County Welfare Department each academic term. Refer to the CalWORKs Program Handbook for additional eligibility criteria.

- 4. Verify that the colleges' declared dollar for dollar match for CalWORKs program State funds are from allowable sources and services. Matching funds must directly benefit the CalWORKs program and be a direct program cost.
- Verify that any CalWORKs State funds used for instructional costs have written approval by the Chancellor's Office and are for courses specifically designed for CalWORKs students.

434 - SCHEDULED MAINTENANCE PROGRAM (Reinstated April 2007)

.01 Background

The Scheduled Maintenance Program is designed to protect the State's investment in community colleges through the timely repair and maintenance of facilities, to correct and avoid health and safety hazards, to maintain an environment conducive to learning, to prevent the disruption of programs, and to improve long-term cost effectiveness of facility operations.

Scheduled maintenance and special repair means unusual, non-recurring work to restore a facility to a safe and continually usable condition for which it was intended.

.02 Criteria

- Education Code 84660
- CCR, Title 5: 57200-57205
- Form 241DRDM.XLS Scheduled Maintenance 5-Year Plan.
- DMWAIVER.DOC Scheduled Maintenance Program Criteria for Evaluating Waiver of 50% District Match.
- Budget and Accounting Manual (BAM)
- 2000-01 Scheduled Maintenance Grant Agreement.
- 2001-02 Scheduled Maintenance Grant Agreement
- 2002-03 Scheduled Maintenance Grant Agreement
- 2003-2004 Block Grant Certification for Expenditures
- FP98-05 Facilities Planning Unit Advisory dated May 1, 1998.
- FP98-10 Facilities Planning Unit Advisory dated October 2, 1998.
- FP99-09 Facilities Planning Unit Advisory dated August 6, 1999.

.03 Compliance Requirement

Funds provided by the State must be to supplement, not supplant, district deferred maintenance funds. This is defined as the amount spent in fiscal year 1995-96 for Operation and Maintenance of Plant increased by an amount equal to the State's contribution and the district's match for the Scheduled Maintenance Program for the year being audited.

- Determine how much in district funds was spent in fiscal year 1995-96 in the General Fund on Operation and Maintenance of Plant (Activity Code 6500), excluding any state funds and match dollars expended for "Deferred Maintenance and Special Repairs" as defined in Education Code Section 84660, if reported in Activity Code 6500. (This amount may be found in the audit report for fiscal year 1998-99).
- 2. Determine how much the district expended for Operation and Maintenance of Plant (Activity Code 6500) in the General Fund for the fiscal year being audited.

- 3. Determine how much in Scheduled Maintenance and Special Repairs grant project expenditures were claimed for reimbursement for the year being audited. (Includes district and state share).
- 4. Determine other Scheduled Maintenance and Special Repairs expenditures incurred during the fiscal year being audited and funded by district or other funds.
- 5. Add the amounts determined in 1 and 3 above.
- 6. Add the amounts determined in 2, 3, and 4 above.
- 7. A reportable instance occurs if the amount identified in 5 above is greater than the amount identified in 6 above. The worksheet below has been provided to assist the in determining compliance.

SCHEDULED MAINTENANCE PROGRAM	
MAINTENANCE OF EFFORT WORKSHEET	
1. 1995-96 Operations and Maintenance Expenditures (Actual from 1998-99 Annual Audit Report).	\$
2004-2005 Expenditures	
 General Fund Expenditures – Routine Maintenance and Operation of Plant (Activity 6500) and Physical Property and Related Acquisitions (Activity 7100) All Fund Sources 	\$
Total Scheduled Maintenance and Special Repairs Grant Project Expenditures Claimed for Reimbursement (Includes State and District Share)	<u>\$</u>
District/Other Funded Scheduled Maintenance and Special Repairs Expenditures	\$
5. Total Expenditures (Add lines 2, 3, and 4)	<u>\$</u>
6. Line 1 Plus Line 3	\$
Maintenance of Effort test is met if line 5 equals or exceeds line 6.	

435 - OPEN ENROLLMENT

.01 Background

CCR, Title 5, specifies that the governing board of each community college district shall adopt by resolution a policy related to open courses as specified in *CCR*, Title 5, Section 51006. In addition, a statement of this policy shall be published in the official catalog, schedule of classes, and any addenda to the schedule of classes for which full-time equivalent students (FTES) is reported for state apportionment. Finally, each district shall also file a copy of the statement with the Chancellor.

.02 Criteria

CCR, Title 5, Section 51006 – Open Courses.

- CCR, Title 5, Section 58050(a)(3) and Penal Code Section 832.3(c) Conditions for Claiming Attendance.
- CCR, Title 5, Section 58051(c)-(f) Method for Computing Full-Time Equivalent Student (FTES).
- CCR, Title 5, Section 58051.5 Reports for Apportionment; Prohibited Classes.
- CCR, Title 5, Section 58051.6 Full-Time Equivalent Student; Adult Education for Inmates of City, County, or City and County Jail, Road Camp, Farm or Federal Correctional Facility.
- CCR, Title 5, Section 58102 Course Description.
- CCR. Title 5. Section 58104 Dissemination of information.
- CCR, Title 5, Section 58106 Limitations on Enrollment.
- Legal Advisory 05-01, "Questions and Answers Re. Concurrent enrollment" issued January 5, 2005 by the Chancellor's Office, California Community Colleges.
- <u>Legal Advisory 05-04: "Distance Education and Open Course Requirements"</u> –
 issued May 10, 2005 by the Chancellor's Office, California Community Colleges.

.03 Compliance Requirement – Open Courses

Community college districts shall comply with the *CCR*, Title 5, provisions related to open enrollment by the general public for all the courses being submitted for state apportionment funding.

Courses that qualify for state apportionment must be open to enrollment by the general public unless specifically exempted by statute. *CCR*, Title 5, Sections 58102, 58104, and 58106 outline certain requirements that districts must meet to ensure that their courses are open and available to all students. For example, *CCR*, Title 5, Section 58104 states that a description of each course must be published in the official catalog and schedule of classes and that for courses that the districts establish or conduct after publication of the general catalog or regular schedule of classes, those classes must also be reasonably well publicized. Furthermore, course announcements shall not be limited to any specialized clientele, nor shall any group or individual receive notice before the general public for purposes of preferential enrollment. The courses should be advertised is such a manner that anyone who might be interested in enrolling in a particular course section will know it is available and understand that enrollment is open to anyone who meets properly established prerequisites or enrollment limitations.

State apportionment can also be claimed for in-service training courses in the areas of police, fire, corrections, and other criminal justice system occupations if the courses meet all apportionment attendance and study requirements otherwise imposed by law. At least 15 percent of the enrollment in law enforcement continuing training prescribed in Penal Code Section 830-832.16 and 15 percent of the enrollment in in-service fire training courses shall consist of persons who are not law enforcement trainees nor volunteers of, nor employed by, a fire protection or fire prevention agency or association, if the persons are available to attend a course. (*CCR*, Title 5, Section 58051(c), (d), and *Penal Code* Section 832.3(c)) Community colleges may give preference in enrollment to persons employed by or serving in a voluntary capacity with a fire protection or prevention agency or to law enforcement trainees when such persons could not otherwise complete the course within a reasonable time or the time

required by statute, and when no other training program is reasonably available. For purposes of state apportionment, classes must be located in facilities that are clearly identified to promote attendance by the general public except where specifically allowed otherwise by statute. [See Legal Advisory 05-04, Distance Education and Open Course Requirements, which provides that the System Office will from the date of the advisory accept two-way synchronous distance education conducted between fixed locations as being "open" (and eligible for apportionment) if at least half of the sites are open to all students. (CCR, Title 5, Sections 58051(d) and 58051.5(a)(3))

.04 Suggested Audit Procedures

- Sample the class announcements of classes claimed for state apportionment to ensure that all classes were open to all admitted students unless specifically exempted. Ensure that classes conducted off campus are included in the items tested, if applicable.
- Ensure all classes included in the above sample are located in facilities clearly identified in such a way to ensure that attendance is open to all admitted students unless exempted by statute. For example, classes offered at a high school campus must be offered at times that the high school campus is open to the general public.
- 3. Test a sample of classes to ensure that all classes are listed in the college catalog and in the class schedule for the term the respective classes were offered. There should be a clear and understandable description of each class.

436 - MINIMUM CONDITIONS - "STANDARDS OF SCHOLARSHIP"

.01 Background

To receive state aid for support of its community colleges, districts are required to meet certain minimum conditions. These minimum conditions include Standards of Scholarship. Violations of the required minimum conditions can have an impact upon state aid provided to the district.

.02 Criteria

- Education Code Section 70901 (b)(6) and 76232
- CCR, Title 5, Sections; 51000, 51002, 55750 55765 and 58161
- Legal Advisory 04-01, Withdrawal and Course Repetition, Dated January 21, 2004

.03 Compliance Requirement

As a minimum condition to receive state aid, each district must adopt regulations consistent with the "Standards of Scholarship "contained in the *CCR*, Title 5 and publish statements of those regulations under appropriate headings in their catalogs. This ensures that students have meaningful access to information concerning such standards. Districts must comply with the adopted regulations.

Districts should have adopted procedures or regulations for the repetition of courses for the

following:

- Districts must adopt and publish procedures or regulations pertaining to repetition of courses for which substandard work has been recorded. The procedures or regulations may allow for such courses to be repeated and the previous grade and credit disregarded in computation of grade point averages. When this occurs, the permanent academic record shall be annotated in such a manner that all work remains legible insuring a true and completed academic history. (CCR, Title 5, Section 55761)
- 2. The district may adopt procedures or regulations concerning courses for which substandard work has not been recorded. If the district allows for such repetition, the procedures or regulations shall indicate that course repetition shall be permitted only upon petition of the student and with written permission of the governing board, or its designee, based upon findings that special circumstances exist which justify repetition. Grades awarded shall not be counted in calculating a student's grade point average. (CCR, Title 5, Section 55763(b)). The permanent academic record must be annotated in such a manner that all work remains legible insuring a true and complete academic history. (CCR, Title 5, Section 55763 (d))
- 3. Districts that permit course repetition where substandard work has not been recorded shall allow repetition without petition in instances when such repetition is necessary for a student to meet a legally mandated training requirement as a condition of continued paid or volunteer employment. Such courses may be repeated for credit any number of times regardless of whether or not substandard work has been previously recorded. Grades received each time shall be included for purposes of calculating the student's grade point average. (CCR, Title 5, Section 55763 (c)) Once again, the permanent academic record must be annotated in such a manner that all work remains legible insuring a true and complete academic history. (CCR, Title 5, Section 55763 (d))
- 4. Finally, a student can repeat a course for three semesters or five quarters IF the course content changes each time the course is taken and the student is gaining an expanded educational experience either because skills or proficiencies are enhanced by supervised repetition or because active participation in individual or group assignments is the basic means of learning. The district must identify the courses, which are repeatable and designate the courses in its catalog. (*CCR*, Title 5, Section 58161)

Apportionment for course repetition recognizes three basic situations:

First, state apportionment may be claimed for one repetition for the attendance of a student repeating a course, in which the student receives a grade, under the following conditions:

- a. The student is repeating the course to alleviate the substandard work, which has been recorded on the students record. Substandard is defined as a course for which the symbol of "D", "F", or "N/C" has been recorded.
- b. The district finds that the student's previous grade is, at least in part, the result of extenuating circumstances. Extenuating circumstances are verified cases of accidents, illness, or other circumstances beyond the control of the student.
- c. The district has determined that a student should repeat a course because there has been a significant lapse of time since the student previously took the course. (*CCR*, Title 5,Section 58161 (b))

Second, state apportionment may be claimed for all the times a student repeats a class to meet a legally mandated training requirement. (*CCR*, Title 5, Section 58161(c))

Third, state apportionment may be claimed for three semesters or five quarters IF the course content changes each time the course is taken and the student is gaining an expanded educational experience either because skills or proficiencies are enhanced by supervised repetition or because active participation in individual or group assignments is the basic means of learning. (*CCR*, Title 5, Section 58161(d))

Because of the complexity of course repetition and apportionment rules for course repetition, each district must develop and implement a mechanism for proper monitoring of such course repetition.

DISTRICTS MAY PERMIT ADDITIONAL REPETITIONS TO THOSE DESCRIBED ABOVE, BUT IF THEY DO PERMIT ADDITIONAL REPETITIONS, THEY CANNOT GRANT CREDIT FOR THOSE ADDITIONAL REPETITIONS, AND THEY MAY NOT CLAIM THE ADDITIONAL REPETITIONS FOR APPORTIONMENT. THEREFORE, DISTRICTS THAT ALLOW ADDITIONAL REPETITIONS BEYOND THOSE DESCRIBED ABOVE, SHOULD HAVE POLICIES THAT CLEARLY INDICATE THAT EXCESS REPETITIONS DO NOT CARRY CREDIT AND THEY MUST HAVE MECHANISMS IN PLACE TO ENSURE THAT ADDITIONAL REPETITIONS ARE NOT REPORTED FOR APPORTIONMENT.

- 5. Districts must establish a limit on the amount of remedial coursework a community college student may take. No student shall receive more that 30 semester units (or 45 quarter units) of credit in remedial coursework. Students that exhaust the unit limitation should be referred to appropriate adult noncredit education services. (*CCR*, Title 5, Section 55756.5)
 - a. Students enrolled in one or more course of English as a Second Language or Students identified by the district as having a learning disability (as defined in *CCR*, Title 5, Section 56014) shall be exempted from the limitation.
 - b. The district governing board may adopt standards to allow a waiver on the limitation to remedial work. The standards for a waiver must include provisions to ensure that the waivers are only given for specified periods or for specified number of units.
- 6. The determination of a student's grade by the instructor shall be final in the absence of mistake, fraud, bad faith or incompetency. Procedures for correction of grades given in error shall include expunging the incorrect grade from the record. These procedures shall include provisions to allow any student to file a written request with the chief administrative officer of the district to correct or remove information, which the student alleges to be inaccurate. Within 30 days the chief administrative officer, or his designee, will sustain or deny the allegation. The student shall have the right to appeal the decision of the chief administrative officer to the district's governing board. (CCR, Title 5, Section 55760 and Education Code Section 76232)
- 7. In computing students' degree applicable grade point averages, grades earned in a nondegree credit course shall not be included. (*CCR*, Title 5, Section 55758.5)

- 1. Determine if the district governing board has adopted procedures or regulations for:
 - Repetition of courses for which substandard work has been recorded.
 - b. Repetition of courses for which substandard work has not been recorded,

- c. Repetition of courses for student to meet a legally mandated training requirement as a condition of continued paid or volunteer employment,
- d. Maintaining permanent student academic records for courses repeated in such a manner that all work remains legible insuring a true and complete academic history.
- e. For correction of grades that allow a student to challenge a grade alleged to be based on mistake, fraud, bad faith, or incompetency. If the grade was incorrect and not corrected at an initial level of review, the district should have a process that allows the student to file a written request with the district's chief administrative officer or his designee to seek a correction of the record in appropriate cases.
- f. Limitations on remedial course work for a community college student. The limitations should identify that no student shall receive more that 30 semester units (or 45 quarter units) of credit in remedial coursework.
- 2. Determine if a statement of the adopted procedures or regulations in one above is published in the college catalog under appropriate headings. Review the procedures or regulations for compliance to the *CCR* and *Education Code*.
- 3. Test a sample of student records for students who have repeated courses to determine if the courses repeated are in compliance with the district's adopted regulations and determine if the district maintains a true and complete academic history showing all course repetitions.
- 4. Test a sample of student records to determine that the district has complied with the limitation of 30 semester units (or 45 quarter units) for remedial course work for a community college student or, if the limitation was exceeded, verify the existence of one of the exceptions to the limitation under *CCR*, Title 5, Section 55756.5(c) or the existence of a waiver under *CCR*, Title 5, Section 55756.5(d).
- 5. Test a sample of student records to determine if degree applicable grade point averages do not include noncredit courses.
- 6. Test a sample of student records for students that have repeated courses. For courses designated as repeatable under *CCR*, Title 5, Section 58161(d) (i.e., course content differs each time it is offered and students gain expanded educational experience as specified) determine if repeated courses were claimed by the district for apportionment no more than 3 semesters (or 5 quarters).

437 - STUDENT FEES - INSTRUCTIONAL MATERIALS AND HEALTH FEES

.01 Background

Express statutory authority is required to charge any mandatory student fees. In some cases, districts are required to charge fees (e.g., the enrollment fee of *Education Code* Section 76300), and in other cases, districts are permitted to charge mandatory fees (e.g., the health fee of *Education Code* Section 76355).

Districts may also charge fees that are optional in nature, provided that the fee is not in conflict or inconsistent with existing law, and is not inconsistent with the purposes for which the district has been established.

Instructional Materials

Districts are allowed to require their students to provide their own instructional materials under certain conditions, and in some cases, districts may require students to purchase the materials from the district. The board of trustees of a district shall adopt policies or regulations regarding the authority to require students to provide various types of instructional materials. There are strict limitations on charging a required "instructional materials fee."

CCR, Title 5, Section 59402 defines "Required Instructional and other materials" as, "any instructional or other materials which a student must procure or possess as a condition of registration, enrollment or entry into a class; or any such material which is necessary to achieve those required objectives of a course which are to be accomplished under the supervision of an instructor during class hours."

Health Fees

Districts are permitted to charge a mandatory health fee under *Education Code* Section 76355. However, they must exempt from payment of such a fee, students who depend exclusively on prayer for healing, apprenticeship students, and low-income students. However, effective January 1, 2006, the health fee exemption for low-income students is no longer required and becomes optional per AB 982.

.02 Criteria

- Education Code Sections 70902, 76355, and 76365
- CCR, Title 5, Section 51012, Student Fees.
- CCR, Title 5, Sections 59400-59408, Instructional and Other Materials.
- <u>Student Fee Handbook</u> published by Chancellors Office for Community Colleges, October 2006.
- AB 982 Health Fee Waiver Guidance and AB 982 Health Fee Waiver Q & A, Chancellor's Office

.03 Compliance Requirement

Education Code Section 76365 allows districts to require students to provide various types of instructional materials. The governing boards of districts that require students to provide instructional materials or other materials for a course must have adopted policies or regulations that specify the conditions under which such materials will be required.

Districts may only require students to provide instructional materials which are of a continuing value to the students outside of the classroom setting, is tangible personal property that is owned or primarily controlled by the student, and the material must not be solely or exclusively available from the district. Such materials include, but are not limited to, textbooks, tools, equipment, clothing, and those materials, which are necessary for a student's vocation training and employment.

Additional information regarding the requirements for Instructional Materials fees is contained in section 2.6 of the Student Fee Handbook referenced above. Appendix A of the handbook also provides information and analysis of specific items that have been previously reviewed under the instructional materials standards.

Districts are permitted to sell instructional materials to students who wish to buy the required materials from the district. If the materials are offered for purchase through the district but students are not required to purchase from the district, the materials costs, or fees, are optional in nature. Any fees that are optional in nature must be made clear to the students. Optional fees must clearly be described as optional is such a way that the optional fees cannot be confused with required fees.

Districts are permitted to require students to purchase instructional materials from them only under limited circumstances: the district is the only source of the materials or there is a health or safety reason for requiring students to purchase the material from the district. An example of the former is where district-prepared materials replace a more traditional textbook. An example of the latter is where a district requires allied health students to use a specific safety-related product. Additionally, a district may require students to purchase required instructional materials from the district if it can demonstrate that it supplies the materials more cheaply than elsewhere and at the district's actual cost.

With respect to health fees, it is important that districts advise students of the exemptions from payment of the fees and have a process to ensure that students may claim the exemptions. The required exemptions to the health fees are:

- a. Students who depend upon prayer for healing in accordance with teachings of a bona fide religious sect, denomination, or organization.
- b. Students who are attending a community college under an approved apprenticeship training program.
- c. Low-income students. However, effective January 1, 2006, the health fee exemption for low-income students is no longer required and becomes optional per AB 982 (*Education Code* Section 76355 (c)).

- Determine if the district governing board has adopted policies or regulations regarding
 the authority of the district to require students to provide various types of instructional
 materials. These policies or regulations should reflect the intent of the legislature that
 districts are not required to provide all materials, textbooks equipment, and clothing
 necessary for each course and program.
- 2. Select a sample of instructional materials fees charged by the district and determine that the instructional materials:
 - a. Have continuing value to the students outside of the classroom setting.
 - b. Are tangible personal property that is owned or primarily controlled by the student.
- 3. Test a sample of the optional fees to ensure that fees are clearly described to the students as optional and cannot be mistaken as required fees.
- 4. Test a sample of the mandatory instructional materials fees to determine if the district can justify requiring the student to purchase the material from it (e.g., the required purchase from the district is based on a health or safety consideration) and ensure that students are not charged more than the district's actual cost of the materials.
- 6. Determine whether the district charges a mandatory health fee. If so, test to determine whether the health fee is described in the catalog and any online or other information concerning student fees and that the required exemptions from payment of the fee are

described. (If a district does not have any apprenticeship programs, it need not describe the apprenticeship exemption.) Determine whether the district has a clear process through which students may claim an exemption.

438 - NONCREDIT COURSES (Rotated out, April 2007)

440 - COMPLIANCE REFERENCES FOR OPTIONAL TESTS OF SPECIFIC STATE PROGRAMS

- .01 Listed below are state-funded programs and activities in community colleges that may be of interest to district auditors. Because of their relative significance to a district's financial presentation, auditors may elect for the single audit of a district to encompass the compliance aspects of one or more program or activity. Sections 468, 474, 475, and 477 of this Manual may provide a brief description of certain programs or activities, their objectives, and references where the compliance requirements may be found. The auditors may develop additional review procedures specifically designed for the district under review.
- .02 As a convenience, the potential programs and activities have been separated into five functional areas.
 - 1. Administration
 - a. Fiscal Condition Monitoring (CCFS-311Q reporting)
 - b. Fiscal Operations Reporting (CCFS-311 reporting)
 - c. Apportionments-Full-Time Equivalent Students
 - d. Apportionments-State General Apportionment
 - e. Transitional Funding Mechanism for Program Improvement

2. Educational Programs

- a. Instructional Innovation and Improvements
- b. Academic Minimum Standards
- c. Course and Program Approvals
- d. Basic Skills
- e. Foster Parent Training
- f. Vocational Education, Program Improvement
- g. Vocational Education, Consumer and Homemaker Education
- h. Articulation
- i. Transfer Centers Pilot Project
- j. Employer Based Training Programk. Vocational Instructor/Career Counselor Inservice Training
- I. Employment Training Panel
- m. Job Training Partnership Act
- n. Instructional Equipment

Student Services

- a. Matriculation
- b. Board of Governor's Financial Aid Program (BFAP)
- c. Registration, Attendance, and Student Records
- d. Underrepresented Students

4. Special Programs

- a. Vocational Education, Support Services to Special Populations
- b. Vocational Education, Community-Based Programs
- c. Child Development Program
- d. Extended Opportunity Programs and Services (EOPS)
- e. Disabled Student Programs and Services (DSPS)
- f. Greater Avenues for Independence (GAIN)
- g. Cooperative Agencies Resources for Education (CARE)
- h. Puente Project
- i. Immigration Reform and Control Act (IRCA)

Facilities

- a. Deferred Maintenance
- b. Hazardous Substances, Chemicals, and Asbestos Abatement
- c. Community College Capital Outlay Program

468 - MATRICULATION

(Refer to Section 428 above.)

474 - EXTENDED OPPORTUNITY PROGRAMS AND SERVICES (EOPS)

.01 **Background**

Extended Opportunity Programs and Services was established "to encourage the enrollment of students handicapped by language, social, and economic disadvantages, and to facilitate the successful completion of their education goals and objectives." (Education Code § 69641) The program was authorized under Senate Bill 164 (Chapter 1579, Statutes of 1968), as amended by AB 3100 (Chapter 1010, Statutes of 1976), SB 2283 (Chapter 609, Statutes of 1984), and AB 3775 (Chapter 1178, Statutes of 1989). State allocations for EOPS are awarded on the basis of need, as supported by data submitted by community college districts. The data are expected to reflect the number of documented, eligible EOPS students identified and served by the district.

.02 Criteria

Provisions that relate to the program requirements:

- Education Code Sections 69640-69656
- CCR, Title 5, Sections 56200-56298

Provisions that relate to the general requirements of the program:

- Education Code Sections 66010-66022, 69500, 69503-69509.5, and 69514
- *CCR*, Title 5, Sections 58600-58630

475 - DISABLED STUDENT PROGRAMS AND SERVICES (DSPS)

.01 Background

Disabled community college students are those with exceptional needs who, because of a verified disability, cannot benefit from general education classes, activities, and services without specific additional DSPS program support services. The purposes of these special programs and services are to integrate the disabled student into the general college program; provide educational intervention leading to vocational preparation, transfer, or general education; and increase independence or referral of the students to community resources most appropriate to their needs. Furthermore, they are to be provided only when they facilitate the student's measurable progress towards his or her educational goals.

Disabled Student Programs and Services is a categorical aid program authorized under AB 77 (Chapter 275, Statutes of 1976) as amended by AB 2670 (Chapter 1407, Statutes of 1978), further modified by AB 8 (Chapter 282, Statutes of 1979), and SB 1053 (Chapter 796, Statutes of 1981) and amended by AB 746 (Chapter 829, Statutes of 1987). State allocations for the program are awarded on an excess-costs basis to meet the educational needs of students with verifiable disabilities. Community college districts shall submit student-count data annually to document eligible DSPS students served.

.02 Criteria

- Education Code Sections 14020.1, 67310-67313, 71020-71020.5, 84320-84328, and 84850
- CCR, Title 5, Sections 56000-56088

477 - COOPERATIVE AGENCIES RESOURCES FOR EDUCATION (CARE)

.01 **Background**

The CARE program was established in 1982 as a supplemental component of EOPS to provide educational support services and activities for the academically under-prepared, welfare-dependent, single head-of-household student population. CARE was established to assist EOPS students who are at least 18 years old and single heads-of-household, current recipients of CalWORKs/TANF/AFDC (California Work Opportunities and Responsibility to Kids/Temporary Assistance for Needy Families/Aid to Families with Dependent Children), have one child under 14 years old, to break the welfare-dependency cycle by completing college-level educational and training programs.

CARE is a program unique to the State of California and the California Community Colleges, where it is found on all 109 campuses. Nearly 10,000 students were served statewide during academic year 2003-2004 Services

Program participants may be eligible to receive grants, allowances and/or services for educationally-related expenditures for dependent care, transportation, and textbooks/school supplies which may be awarded as a means of strengthening their retention, persistence, graduation and transfer rates. CARE also may provide eligible students with other educational support including: supplemental counseling and advisement; personal development activities, workshops and/or curriculum (including self-esteem, parenting, study skills, time management, etc.); group support and peer networking; help from peer advisors who are often single parents themselves; information and referrals to campus and community-based human services programs; and other services designed to assist these academically high-risk students achieve educational success.

Students participating in CARE may choose vocational certificate or license, associate degree, or transfer program options. Their selection of educational or career choices is facilitated with the assistance of EOPS-CARE and/or college counselors.

.02 Criteria

- Education Code Sections 79150-79155
- *CCR*, Title 5, Sections 56200-56298
- CARE Program Guidelines (See Requests for Waivers)
- California Community Colleges Management Information Systems Data Element Dictionary (data elements SE01-SE10).

.03 Auditing Guidelines:

In recent years, the CARE program auditing guidelines have been published as part of the CDAM; however, in order to ensure the latest revisions are used as part of the manual, the auditing guidelines can be obtained on the CCCCO CARE program webpage at http://www.cccco.edu/divisions/ss/care/care.htm. Once at the CARE program website click on the appropriate year's CARE Auditing Guidelines link.

<u>Contact:</u> For further information or clarification, please contact: Cheryl Fong, CARE Coordinator, Student Services Division, at (916) 323-5954.

SECTION 500

FEDERAL COMPLIANCE REQUIREMENTS

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SECTION 500 - Federal Compliance Requirements

510 - OVERVIEW

- Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the related OMB Circular A-133 Compliance Supplement provides guidance for determining compliance requirements relevant to the audits of states, local governments, and non-profit organizations expending federal awards.
- .02 The U.S. Department of Education (ED) now requires institutions that participate in federal student financial aid programs to submit data from their audited financial statements as well as attaching a PDF of their audit report using the eZ-Audit submission system within nine months of their fiscal-year end effective June 16, 2003. Additional information about this process is found at https://ezaudit.ed.gov/EZWebApp/common/login.jsp. Note: Public and/or Not-For-Profit institutions still need to submit their audit report to the Federal Audit Clearinghouse as required under OMB Circular A-133.
- .03 Recipients of federal awards exceeding \$500,000 are required to have a single or program-specific audit conducted for that year in accordance with the provisions of OMB Circular A-133. The OMB A-133 Compliance Supplement, an affiliated document, sets forth the major compliance requirements to be considered in an organization-wide audit of a community college district that receives federal assistance. It identifies the programs and related compliance requirements, and provides suggested audit procedures to be applied in audits of community college districts. Copies of the Compliance Supplement may be obtained at the OMB's Internet home page http://www.whitehouse.gov/omb/>.
- For those federal programs not covered in the *Compliance Supplement*, the auditor should use the types of compliance requirements contained in the supplement as guidance in selecting the types of compliance tests to perform, and determine the requirements governing the federal program by reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements. Auditors should use professional judgment to choose procedures and determine the extent of tests performed. The audit procedures should be tailored to individual programs and circumstances. The auditor is also responsible for ensuring that specific requirements that are modified by a change in a law or regulation are included in the audit procedures.

520 - REQUIRED FEDERAL COMPLIANCE TESTS

- .01 Part 2 of the A-133 Compliance Supplement, *Matrix of Compliance Requirements*, identifies the compliance requirements addressed by the supplement and associates the programs with their applicable compliance requirements. Parts 4 and 5 of the supplement include audit objectives and suggested audit procedures for each program included in the supplement. Part 5 specifically identifies those programs that are considered a cluster of programs as defined by OMB Circular A-133 (§__.105).
- .02 In making a determination not to test a compliance requirement, the auditor must conclude that the requirement either does not apply to the particular non-federal entity

or that failure to comply with the requirement will not have a material effect on a major program. Auditors shall consider the compliance requirements and related audit objectives for programs included in the A-133 Compliance Supplement in every audit of non-federal entities with the exception of program specific audits performed using a federal agency's program specific audit guide. OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, provides additional instruction for administering federal awards.

- .03 Interest earned on federal funds is an item of particular interest for community colleges. Such interest is required to be submitted promptly, but at least quarterly, to the federal agency. Up to \$100 per year may be kept for administrative expenses.
- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires that recipients maintain advances of federal funds in interest bearing accounts, unless they receive less than \$120,000 in federal awards per year; or the best reasonably available interest bearing account would not be expected to earn interest in excess of \$250 per year on federal cash balances; or the depository would require an average or minimum balance so high that it would not be feasible within the expected federal and non-federal cash resources.

521 - CONDITIONAL TESTS OF GENERAL COMPLIANCE (Edgar)

.01 Background

Vital components to implementing any federal program are the general administrative requirements contained in Section 34 of the *Code of Federal Regulations* more commonly called the *Education Department General Administrative Regulations* (EDGAR). EDGAR defines the uses of federal funds and provides administrative procedures that grantees and subgrantees must apply to those funds.

Beyond EDGAR, there are additional publications helpful to the administration of federal funds such as circulars issued by the Office of Management and Budget (OMB). These OMB Circulars are issued to address specific situations that arise in the administration of federal funds. For example, OMB Circular A-21, *Cost Principles for Educational Institutions* establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.

.02 Compliance Requirement

- 1. A grantee shall keep financial records that clearly show:
 - a. The amount of funds under the grant;
 - b. How the grantee uses the funds;
 - c. The total cost of the project;
 - d. The share of the cost provided from other sources; and
 - e. Other records to facilitate an effective audit.

- 2. Generally, financial status reports shall not be required more frequently than quarterly. When reports are required quarterly, they shall be due 30 days after the end of the reporting period. Final reports, addressing both financial status and program performance, shall be due 90 days after the completion of the award.
- 3. A grantee's financial management system shall provide accurate, current, and complete disclosure of the financial results of each federally sponsored project. The grantee's records shall:
 - a. Provide information pertaining to awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest.
 - b. Compare outlays with budget amounts for each award.
- 4. A grantee shall retain records for three years from the date of the submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report. Exceptions to the three year requirement are as follows:
 - a. If any litigation, claim, or audit is started before the expiration of the three year period, the records shall be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.
 - b. Records for real property and equipment acquired with federal funds shall be retained for three years after final disposition.
 - c. The three year retention period for documents related to indirect cost rate computations or proposals, cost allocations plans and any similar accounting computations shall start on the date of submission of those records for negotiation, if that is the case, or at the end of the fiscal year (or other accounting period) covered by the proposal, plan, or other computation.

.03 Criteria

- Code of Federal Regulations, Title 34, Part 74, Sections 21, 51, 53, and 71; Part 75, Sections 730 and 732; and Part 76, Section 730.
- Office of Management and Budget Circular No. A-110, § .51.

.04 Compliance Requirement

Procedures for managing equipment purchased with federal funds, until transfer or disposition takes place, shall, at a minimum, meet the following requirements:

- 1. The recipient's property management standards for equipment acquired with federal funds and for federally owned equipment should include all of the following:
 - A description of the equipment
 - Manufacturer's serial number, model number, federal stock number, national stock number, or other identification number.
 - Source of the equipment, including the award number.
 - Whether title vests in the recipient or the federal government.
 - The information needed to calculate the federal share of the equipment.

- Acquisition date and unit acquisition cost.
- Location, use and condition of the equipment and the date the information were recorded.
- Ultimate disposition data, including date of disposal and sales price or the method used to determine the current fair market value where a recipient compensates the federal awarding agency for its share.
- 2. A physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years and verify the existence, current use and continued need for the equipment. Any differences between physical inventory and accounting records shall be investigated to determine cause of difference. A statistical sampling basis is acceptable.
- 3. A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented. Adequate maintenance procedures shall be implemented to keep the equipment in good condition.

.05 **Criteria**

Office of Management and Budget Circular A-110, §__.34.

.06 Compliance Requirement

The replacement and/or disposal of federal property requires that the grantee follows these procedures:

Replacement of Equipment

When replacing equipment, the recipient may use the equipment to be replaced as tradein or sell the equipment and use the proceeds to offset the costs of the replacement equipment subject to the approval of the federal awarding agency.

Disposition of Equipment

When the recipient no longer needs the equipment, the equipment may be used for other activities in accordance with the following standards. For equipment with a current per unit fair market value of \$5,000 or more, the recipient may retain the equipment for other uses if compensation is made to the original federal awarding agency or its successor. The amount of compensation shall be computed by applying the percentage of federal participation in the cost of the original project or program to the current fair market value of the equipment. If the recipient has no need for the equipment, the recipient shall request disposition instructions from the federal awarding agency. The federal agency shall issue instructions to the recipient no later than 120 calendar days after the recipient's request.

If so instructed or if disposition instructions are not issued within 120 calendar days after the recipient's request, the recipient shall sell the equipment and reimburse the federal awarding agency an amount computed by applying the percentage of federal participation in the cost of the original project or program to the sales proceeds. However, the recipient shall be permitted to deduct and retain \$500 or 10 percent of the proceeds, wherever is less, from the federal share for the recipient's selling and handling expenses.

If instructed to ship the equipment elsewhere, the recipient shall be reimbursed by the federal government by an amount which is computed by applying the percentage of the recipient's participation in the cost of the original project or program to the current fair market value of the equipment, plus any reasonable shipping or interim storage costs incurred.

If instructed to otherwise dispose of the equipment, the recipient shall be reimbursed by the federal awarding agency for such costs incurred in its disposition.

.07 Criteria

Office of Management and Budget Circular A-110, §__.34.

530 MAJOR FEDERAL PROGRAMS

- .01 In accordance with OMB Circular A-133, auditors shall use a risk-based approach to determine which federal programs are major programs. This approach shall include consideration of current or prior audit experience, oversight by federal agencies and pass-through entities, and the inherent risk of the federal program. The following steps summarize the process followed to identify major programs:
 - 1. Programs are categorized as either "Type A" or "Type B." Type A programs are those programs with federal expenditures in excess of \$300,000 or three percent of the auditee's total federal awards expenditures when those total federal awards expenditures are at least \$300,000 but do not exceed \$100 million. (See OMB Circular A-133 for the limits affecting those entities with total federal awards exceeding \$100 million.) All federal programs not labeled Type A above shall be labeled Type B.
 - 2. Type A programs are reviewed to determine which are low-risk. A Type A program is considered low risk if it has been audited as a major program at least once during the two most recent audit periods and, in the most recent audit period, had no audit findings per the criteria in Section __.510 of OMB Circular A-133. Auditors should apply professional judgment in determining whether a Type A program is low-risk.
 - 3. High-risk Type B programs are identified and selected based on the criteria in Section .525 of OMB Circular A-133 and the auditor's professional judgment. Section .525 includes factors such as current and prior audit experience, oversight exercised by federal and pass-through agencies, and the inherent risk of the federal program. The auditor is only required to perform risk assessments on Type B programs that exceed the larger of \$100,000 or 0.3 percent of the total federal awards to the recipient when total federal awards do not exceed \$100 million. (See OMB Circular A-133 for the limits affecting those entities with total federal awards greater than \$100 million.)
 - 4. At a minimum, the following major programs shall be audited:
 - a. All Type A programs except those classified as low-risk in step 2 above.
 - b. High-risk Type B programs as identified using either of the options below:
 - i. At least one-half of the Type B programs identified as high risk in step 3. The number of Type B high-risk programs selected is not required to exceed the number of low-risk Type A programs identified in step 2.

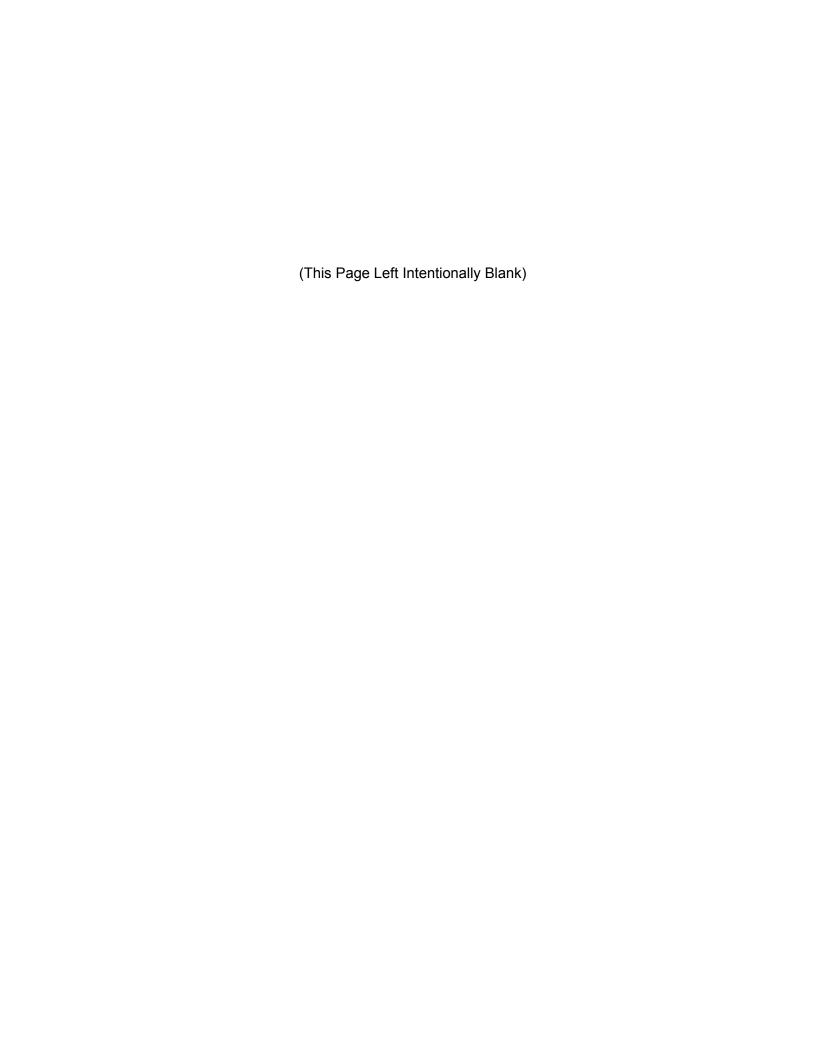
ii. One high-risk Type B program for each Type A program identified as low-risk under Step 2.

As such, annual auditors are required to determine auditee compliance with applicable requirements as stipulated in the Compliance Supplement to A-133 – Audits of States, Local Governments, and Non-Profit Organizations. Additional federal program information can be obtained from the Catalog of Federal Domestic Assistance at: http://www.cfda.gov/.

During annual reviews, auditors are advised to refer directly to the OMB A-133 *Compliance Supplement* for specific compliance tests and suggested audit procedures. Questions regarding a compliance requirement, including requests for information about changes in requirements, should be addressed to the administering agency. Requirements and suggested audit procedures for smaller grant programs not contained in the OMB A-133 *Compliance Supplement* can also be obtained from the administering department or agency.

APPENDIX

ILLUSTRATIVE AUDIT REPORT



Illustrative Audit Report

SPECIAL NOTE

This illustrative audit report, including the financial statements, footnotes, supplemental schedules, and auditor comments are intended only for informational purposes to provide general assistance to the District's staff or its auditor. It represents, at best, hypothetical financial statements intended to illustrate various features specific to implementation of GASB Statement Numbers 34, 35, 37, 38 and 39. The illustrations that follow are <u>not intended</u> to represent a particular community college district. The independent auditors performing the audit will still encounter situations requiring their professional judgment and expertise.

For the 2003-04 audit cycle, all districts should have implemented the above GASB Statements.

Sample Community College District

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.01 INTRODUCTION

The single audit of the Sample Community College District has the following objectives: 1

- To determine the fairness of presentation of the district's basic financial statements in accordance with accounting principles generally accepted in the United States of America.
- To evaluate the adequacy of the systems and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the district's financial statements and allowability of program expenditures for federal and California financial assistance programs.
- To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.
- To determine whether financial and financially related reports to state and federal agencies are presented fairly.
- To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.

These are meant to be illustrative of those objectives that are common to most audits. The auditor is expected to describe the objectives of their individual audits.

Independent Auditor's Report

Board of Trustees Sample Community College District Goldfield, California 95814

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Sample Community College District (District) as of and for the year ended June 30, 2004, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

[Qualification statement placed here, if necessary.]

In our opinion, (except for the qualification [describe qualification] described in the preceding paragraph), the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the Sample Community College District as of June 30, 2004, and the results of its operations, changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 4, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis (MD&A) on pages 4 through 9 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements. The accompanying supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial

statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[Signature]

[Date]

Management's Discussion and Analysis Fiscal Year Ending June 30, 2004

New Accounting Standards

The Governmental Accounting Standard's Board (GASB) released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. Sample Community College District (district) adopted and applied these new standards beginning in the 2001-02 fiscal year. In May 2002, the GASB released Statement No. 39, "Determining Whether Certain Organizations Are Component Units," which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The district has adopted and applied the above standards for the 2003-04 fiscal year.

The California Community College Chancellor's Office recommends that all State community college districts follow the new standards using the Business Type Activity (BTA) model. Sample Community College District has adopted the BTA reporting model for these financial statements to comply with the recommendation of the Chancellor's Office and to report in a manner consistent and comparable with other community college districts.

The following discussion and analysis provides an overview of the District's financial activities with emphasis on current year data. As required by the newly adopted accounting principles, this report consists of three basic financial statements that provide information on the District as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

Some of the changes in the financial statements that have resulted from the implementation of these new standards using the BTA model are

- Revenues and expenses are now categorized as either operating or non-operating; this
 operating information was not previously presented.
- Pledges from donors (excluding permanent endowments) are recorded as receivables and non-operating revenues at the date of the pledge. Previously, pledges were not recorded as revenue until the related gift was received.
- Capital assets are included in the statement presentations.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the district as of the end of the fiscal year using the accrual basis of accounting, which is comparable to that used by most private-sector institutions. Net assets—the difference between assets and liabilities—are one way to measure the financial health of the district. The net asset data allows readers to determine the resources available to continue the operations of the district.

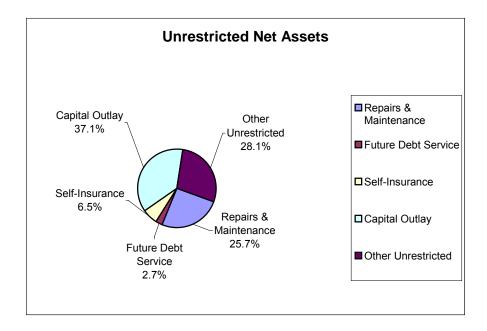
The net assets of the district consist of three major categories:

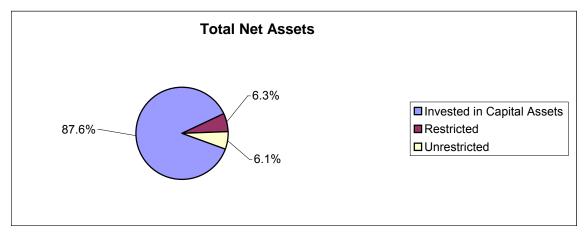
- Invested in capital assets, net of related debt The district's equity in property, plant, and equipment.
- Restricted net assets (distinguishing between major categories of restriction.) The
 constraints placed on the use of the assets are externally imposed by creditors such as
 through debt covenants, grantors, contributors, or laws or regulations of other
 governments or imposed through constitutional provisions or enabling legislation.
- Unrestricted net assets The district can use them for any lawful purpose. Although unrestricted, the district's governing board may place internal restrictions on these net assets, but it retains the power to change, remove, or modify those restrictions.

Condensed Statement of Net Assets As of June 30

	2004	2003	Year-to-Year Change
ASSETS	2004	2003	Change
Current Assets:			
Cash and short-term investments	19,271,127	20,028,226	-3.8%
Accounts Receivable, net	13,238,545		
Inventories, prepaid expenses and other	1,366,659		
Total Current Assets	33,876,331	34,219,224	
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	6,348,066	7,315,540	
Student Loans Receivable	31,027	,	
Capital Assets, Net		180,758,804	
Total Noncurrent Assets		188,101,750	
TOTAL ASSETS	224,512,351	222,320,974	1.0%
LIABILITIES			
Current Liabilities:			
Accounts Payable	5,349,074	5,407,465	-1.1%
Deferred Revenue	6,935,856		
Long-term liabilities – current portion	2,931,192		
Total Current Liabilities	15,216,122	15,392,501	
Noncurrent Liabilities			
Compensated Absences Payable noncurrent portion	306,117	301,227	1.6%
Notes Payable noncurrent portion Lease Obligations noncurrent portion	5,766,289	E 701 00E	-0.3%
Total Noncurrent Liabilities	6,072,406	5,784,885 6,086,112	
TOTAL LIABILITIES	21,288,528	21,478,613	-0.2% -0.9%
TOTAL LIABILITIES	21,200,520	21,470,013	-0.970
NET ASSETS			
Invested in Capital Assets, Net of Debt	178,019,225	174,509,728	2.0%
Restricted for: Nonexpendable			
Expendable	12,887,193	12,994,136	-0.8%
Unrestricted	12,317,405		
TOTAL NET ASSETS		200,842,361	•
TOTAL LIABILITIES AND NET ASSETS	224,512,351	222,320,974	
	,-:=,	,,	

The District's financial position, as a whole, improved during the fiscal year ending June 30, 2004. Its total net assets increased \$2.2 million or about 1.0 per cent from the previous year due primarily to the increase in capital assets net of depreciation. The District, however, continues to be impacted by the suppressed economic climate in California and the reduced levels of state support. The District continues to be affected by the adverse fiscal climate. Accounts receivable have increased \$523,000 as students and other service recipients have delayed payments of liabilities owed to the District. Likewise, revenue received but not yet earned has decreased by \$168,000 as students paid fewer fees in advance. Finally, many of the District's unrestricted net assets have been designated or reserved by the Governing Board for specific purposes such as insurance reserves, repairs and replacement of equipment, self-insurance, and capital outlay. The following graphs shows the allocations of unrestricted net assets and the portion of total net assets that is unrestricted:





Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the district. The purpose of the statement is to present the revenues received by the district, both operating and non-operating, and the expenses paid by the district, operating and non-operating, and any other revenues, expenses, gains and losses received or spend by the district. State general apportionment funds, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

Changes in total net assets on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues are received for providing goods and services to the various customers and constituencies of the district. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the district.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	2004	2003	
Operating Revenues	32,317,195	33,284,981	-2.9%
Operating Expenses	94,887,490	91,455,282	3.8%
Operating loss	(62,570,295)	(58,170,301)	7.6%
Non-operating revenues and expenses	59,938,259	58,394,325	2.6%
Income (Loss) Before Other Revenues Expenses, gains or losses	(2,632,036)	224,024	
Other Revenues, Expenses, Gains or losses	5,013,498	6,577,597	-23.8%
Increase (decrease) in net assets	2,381,462	6,801,621	-65.0%
Net assets beginning of year	200,842,361	195,100,032	2.9%
Net assets end of year	203,223,823	201,901,653	0.7%

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the year. However, the magnitude of this increase is less than the increase noted in fiscal year 2002-03. The cost of operations increased by \$3.43 million resulting in part from an \$895,000 increase in salaries and employee benefits. In contrast, utility expense decreased by \$205,000 as the price of energy moderated somewhat from the price spike of late 2000. There was also a \$1.32 million increase in depreciation expense due in part to the completion of one building and additional investment in computer equipment and applications during the preceding year. Finally, the balance for Other Revenue, Expenses, Gains or Losses fell by 23.8% when the District's receipt of state apportionments for future capital projects decreased by 10.2% or \$555,000 and local property taxes and revenues for capital projects decreased by \$1.01 million or 90.5%.

Although the statement shows an operating loss of \$62.6 million, that balance does not reflect the \$59.9 million non-operating revenue and the \$5 million of other revenues received by the District.

Because of these revenues from both state and local sources, the District reports an increase in its net assets of \$2.4 million dollars for this fiscal year, less than the \$6.8 million reported for fiscal year 2002. The increase in total net assets reflects a \$3.5 million increase in capital assets.

Statement of Cash Flows

The statement of cash flows provides additional information about the district's financial results by reporting its major sources and uses of cash. This information assists readers in assessing the district's ability to generate revenue, meet its obligations as they come due, and evaluate its need for external financing. The statement is divided into several parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities and shows the sources and uses of those funds. The third sections deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section deals with cash flows from investing activities. This section reflects the cash received and spent for short-term investments and any interest paid or received on those investments.

	2004	2003
Cash received from operations	\$ 31,920,589	\$ 31,591,133
Cash expended for operations	(87,287,703)	(84,706,071)
Net cash used in operating activities	(55,367,114)	(53,114,938)
Net cash provided by noncapital financing activities	58,838,560	57,331,093
Net cash used in capital and related financing activities	(6,278,174)	(2,423,505)
Net cash provided by investing activities	1,199,146	1,323,779
Net increase in cash and cash equivalents	(1,607,582)	3,116,429
Cash and cash equivalents, beginning of year	25,421,769	22,305,340
Cash and cash equivalents, end of year	\$ 23,814,187	\$ 25,421,769

District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs and donors for student loans and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because we cannot use these assets to finance operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Economic Factors That Will Affect the Future

The District's economic strength is directly affected by the economic well being of California. As the State's economy has been weak and intermittent, the impact of continuing restricted state resources to the District has limited its ability to provide access to educational services demanded by potential students. We anticipate continued restrictions in state funding as the state deals with its budget deficit and the weak economic recovery. These conditions will limit the ability of the District to meet the growing demands of its student population.

BASIC FINANCIAL STATEMENTS

Great Community College District Statement of Net Assets As of June 30, 2004

As of June 30, 2004		
Classified Format	District	Alumni Assoc.
ASSETS	-	
Current Assets:		
Cash and Cash Equivalents	\$17,466,121	\$ 754,422
Short-Term Investments	1,805,006	98,182
Accounts Receivable, net	13,238,545	67,843
Student Loans Receivable, net current portion	115,321	
Stores Inventory	1,100,348	
Prepaid Expenses	150,990	22,827
Total Current Assets	33,876,331	943,274
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	6,348,006	
Student Loans Receivable, net – noncurrent portion	31,027	
Long-term Investments		3,013,724
Pledges Receivable		1,833,863
Capital Assets, Net	184,256,927	
Total Noncurrent Assets	190,636,020	4,847,587
TOTAL ASSETS	\$224,512,351	\$ 5,790,861
LIADULTIE		
LIABILITIES Command Link Without		10 100
Current Liabilities:	5 0 4 0 0 7 4	10,429
Accounts Payable	5,349,074	233,198
Deferred Revenue	6,935,856	531,420
Compensated Absences Payable current portion	1,510,094	
Amounts Held in Trust for Others	905,678	
Notes Payable current portion	44,007	
Lease Obligations current portion	471,413	
Total Current Liabilities	15,216,122	775,047
Noncurrent Liabilities		
Compensated Absences Payable noncurrent portion	306,117	
Notes Payable noncurrent portion		
Lease Obligations noncurrent portion	5,766,289	
Total Noncurrent Liabilities	6,072,406	
TOTAL LIABILITIES	21,288,528	775,047
NET ASSETS		
Invested in Capital Assets, Net of Debt	178,019,225	487,668
Restricted for:	170,010,220	101,000
Nonexpendable		
Expendable	12,887,193	3,615,633
Unrestricted	12,317,405	912,513
TOTAL NET ASSETS	203,223,823	5,015,814
TOTAL LIABILITIES AND NET ASSETS	\$224,512,351	\$ 5,790,460

Sample Community College District Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended June 30, 2004

ODED ATIMO DEVENUES	District	Alumni Assoc.
OPERATING REVENUES	0 0 407 474	
Tuition & Fees	\$ 6,437,171	
Less: Scholarship Discounts & Allowances	(1,189,726)	
Net Tuition & Fees	5,247,455	
Grants and contracts, Non-Capital:		
Federal	7,727,201	
State	10,622,174	
Local	2,477,064	
Auxiliary Enterprise Sales and Charges	6,243,311	
Interest on Student Loans		
Other Operating Revenues		
TOTAL OPERATING REVENUES	32,317,311	_
OPERATING EXPENSES		
Salaries	49,702,388	314,732
Employee Benefits	11,475,106	54,217
Payments to Students	, ,	205,638
Supplies, Materials, and Other Expenses	24,307,992	,
Utilities	1,602,004	
Depreciation	7,800,000	
TOTAL OPERATING EXPENSES	94,887,490	574,587
OPERATING INCOME (LOSS)	(62,570,295)	
NON ODERATING DEVENUES (EVDENSES)		
NON-OPERATING REVENUES (EXPENSES)	20 204 072	
State Apportionments, Non-Capital Local Property Taxes	30,201,072	
	25,558,467	
State Taxes and Other Revenues	2,957,402	EE 000
Investment Income – Non-Capital	1,082,155	55,886
Investment Income – Capital	478,052	
Investment Expense – Capital Asset-Related Debt	(400.007)	
0" 1 0 " 5	(460,227)	504.000
Other Non-Operating Revenues	121,338	534,822
TOTAL NON-OPERATING REVENUES (EXPENSES)	59,938,259	590,708
INCOME BEFORE OTHER		
REVENUES, EXPENSES, GAINS, OR LOSSES	(2,632,036)	16,121
State Apportionments, Capital	4,907,542	-,
Local Property Taxes and Revenues, Capital	105,956	
Grants and Gifts	0	
INCREASE (DECREASE) IN NET ASSETS	2,381,462	16,121
NET ASSETS – BEGINNING OF YEAR	200,842,361	4,999,693
NET ASSETS – END OF YEAR	203,223,823	5,015,814

Sample Community College District Statement of Cash Flows For the Year Ended June 30, 2004

	District Total	Alumni Assoc.
Cash Flows From Operating Activities		
Tuition and Fees	\$ 5,508,342	\$
Federal Grants and Contracts	7,502,052	
State Grants and Contracts	10,224,457	
Local Grants and Contracts	2,477,064	
Payments to Suppliers	(24,178,133)	
Payments for Utilities	(1,636,879)	
Payments to/on-behalf of Employees	(49,727,123)	(314,732)
Payments for Benefits	(11,431,620)	(54,217)
Student Loans/Grants	(19,275)	(205,638)
Auxiliary Enterprise Sales and Charges	6,208,674	(16,936)
Other Receipts (Payments)	(294,673)	
Net Cash Provided (Used) by Operating Activities	(\$55,367,114)	(591,523)
Cash Flows From Noncapital Financing Activities		
State Apportionments and Receipts	30,201,072	
Property Taxes	25,558,467	
State Taxes and Other Revenues	2,957,402	
Grants & Gifts for Other Than Capital Projects		379,210
Other Receipts (Payments)	121,619	
Net Cash Provided (Used) by Noncapital Financing Activities	58,838,560	379,210
Cash Flows From Capital and Related Financing Activities		
State Apportionments for Capital Purposes	4,907,542	
Purchases of Capital Assets	(11,298,123)	
Proceeds from Sales of Capital Assets	0	
Interest Paid on Capital Debt	(273,872)	
Principal Paid on Capital Debt	(186,355)	
Interest on Capital Investments	478,052	
Local Property Taxes and Other Revenues for Capital Purposes	105,956	
Capital Debt and Lease Obligations (net)	(11,374)	
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,278,174)	0
Cash Flows From Investing Activities		
Proceeds from Sales and Maturities of Investments	6,100,466	272,352
Interest on Investments	1,082,155	55,886
Purchase of Investments	(5,983,475)	(98,182)
Net Cash Provided (Used) by Investing Activities	1,199,146	230,056
	/4 22-	,
Net Increase (Decrease) in Cash and Cash Equivalents	(1,607,582)	17,743
Cash Balance Beginning of Year	25,421,769	736,679
Cash Balance End of Year	\$23,814,187	\$ 754,422

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss) Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:	(\$62,570,295)	(574,578)
Depreciation Expense	7,800,000	
Changes in assets and liabilities:		
Receivables, net	(523,512)	(16,936)
Student Loans Receivable, net	(19,275)	
Inventories	113,069	
Accounts Payable	(58,391)	
Deferred Revenue	(167,767)	
Prepaid Expenses	11,891	
Compensated Absences	47,166	
Other Liabilities	0	
Net Cash provided (used) by operating activities:	(\$55,367,114)	(591,523)

Noncash Transactions

Information about all noncash investing, capital, and financing activities during the period should also be reported. This information should be presented in a separate schedule and may be in either a narrative or a tabular format. The schedule may be presented, if space permits, on the same page as the statement of cash flows.

Sample Community College District Notes to the Financial Statements

June 30, 2004

Note 1 – Organization and Nature of Activities

Reporting Entity – The Sample Community College District (District) is a political subdivision of the State of California and provides educational services to the local residents of the surrounding area. The District consists of one community college located in Goldfield, California. While the District is a political subdivision of the State, it is not a component unit of the state in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14. The District is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal taxes. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles (GAAP) and GASB Statement 14 as amended by GASB Statement 39. The three criteria for requiring a legally separate, tax-exempt organization to be discretely presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance criterion. The District identified the Sample Community College Alumni Association as its only potential component unit.

The District will report the Alumni Association (Association) as a component unit. The Association was established as a legally separate, not-for-profit corporation to support the district and its students. It contributes to various scholarship funds for the benefit of district students and contributes directly to the college. The funds contributed directly by the association to Sample Community College are significant to the college's financial statements. Therefore, the district has classified the Association as a component unit that will be discretely presented in the District's annual financial statements. The Alumni Association also issues a stand-alone audited, financial report, which can be obtained from the District or the Association.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation – GASB released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. Sample Community College District (district) adopted and applied these new standards beginning in 2001-02 as required. In May 2002, the GASB released Statement No. 39, "Determining Whether Certain Organizations Are Component Units," which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The district adopted and applied this standard for the 2003-04 fiscal year as required.

The District now follows the financial statement presentation required by GASB Statements No. 34, 35, 37, 38 and 39. This presentation provides a comprehensive, entity-wide perspective of the District's assets, cash flows, and replaces the fund-group perspective previously required.

Basis of Accounting – For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities (BTA). Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. All material intra-agency transactions have been eliminated.

The District records revenues when earned and expenses when a liability is incurred regardless of the timing of the related cash flow. It has also elected to apply all Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, unless FASB conflicts with GASB. The District has not elected to apply FASB pronouncements issued after that date. The budgetary and financial accounts of the District are recorded and maintained in accordance with the Chancellor's Office's *Budget and Accounting Manual*.

Cash and Cash Equivalents – For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the county treasurer's investment pool are considered cash equivalents.

Restricted Cash and Cash Equivalents – Restricted cash and cash equivalents are those amounts externally restricted as to use pursuant to the requirements of the District's grants and contracts and amounts.

Accounts Receivable – Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of California. Accounts receivable also include amounts due from the federal government, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. The District does not record an allowance for uncollectible accounts. When receivables are determined to be uncollectible, a direct write-off is recorded.

Inventories – Inventories, primarily bookstore merchandise, are carried at the lower of cost of market using the first-in, first-out ("FIFO") method.

Capital Assets – Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Capitalized equipment includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged as operating expense in the year in which the expense was incurred.

Depreciation of capitalized assets is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 years for portable buildings, 10 years for land improvements, 8 years for most equipment and vehicles, and 3 years for technology equipment such as computers.

Net Assets – The District's net assets are classified as follows:

- Invested in capital assets, net of related debt This represents the District's total investment in capital assets, net of associated outstanding debt obligations. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component invested in capital assets, net of related debt.
- Restricted net assets expendable Restricted expendable net assets include resources
 that the District is legally or contractually obligated to spend in accordance with restrictions
 imposed by external third parties.
- Restricted net assets nonexpendable Nonexpendable restricted net assets consist of
 endowment and similar type funds in which donors or other outside sources have
 stipulated, as a condition of the gift instrument, that the principal is to be maintained
 inviolate and in perpetuity, and invested for the purpose of producing present and future
 income, which may either be expended or added to principal.
- Unrestricted net assets Unrestricted net assets represent resources derived from student
 tuition and fees, state apportionments, and sales and services of educational departments
 and auxiliary enterprises. These resources are used for transactions relating to the
 educational and general operations of the District, and may be used at the discretion of the
 governing board to meet current expenses for any purpose. Although the governing board
 may designate these funds for special purposes, the funds remain unrestricted.

When an expense is incurred that can be paid using either restricted or unrestricted funds, the District's policy is to utilize available restricted resources, followed by unrestricted resources.

State Apportionments – Certain current year apportionments from the state are based on various financial and statistical information of the previous year. Any prior year corrections due to the recalculation in February 2005 will be recorded in the year computed by the State.

On-Behalf Payments – GASB Statement 24 requires that direct on-behalf payments for firing benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers and Public Employees Retirement Systems on behalf of all Community Colleges in California. However, a fiscal advisory issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the district is estimated at \$862,000 for STRS and \$8,900 for PERS.

Deferred Revenues – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Operating Revenues – Operating revenues include all revenues from programmatic sources. Non-operating revenues include state apportionments, state and local tax revenues, investment income, and gifts.

Classification of Revenues – The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, including state appropriations, local property taxes, and investment income. Revenues are classified according to the following criteria:

- Operating revenues Operating revenues include activities that have the characteristics of
 exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and
 allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts an
 allowances, (3) most federal, state and local grants and contracts and federal appropriations,
 and (4) interest on institutional student loans.
- Non-operating revenues Non-operating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

Investments – In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value. However, cash in the county treasury and some investments are recorded at cost, which approximates fair value.

Restricted Cash and Cash Equivalents – Cash that is externally restricted for contractual obligations such as debt service payments, sinking or reserve funds, or to purchase or construct capital or other non-current assets, is classified as a non-current asset in the statement of net assets.

Compensated Absences – Compensated absence costs are accrued when earned by employees. Accumulated unpaid employee vacation benefits are recognized at year-end as liabilities of the District. The District also participates in and accrues "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for eligible employees when they retire.

Scholarship Discounts and Allowances – Student tuition and fee revenue are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances represent the difference between stated charges for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as operating revenues in the district's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

Note 3 - Cash And Investments

Cash in County Treasury	\$ 21,637,342
Cash on hand and in banks	2,140,247
Total Cash	\$ 23,814,187
Investments	<u>\$ 1,805,006</u>
Total Cash and Investments	\$ 25,619,193

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances is deposited with the County Treasurer to enhance interest earnings through county investment activities. The *California Government Code*, Sections 16520–16522, require California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured or collateralized. At June 30, 2004, the District's investments primarily consist of certificates of deposits, and bonds that are carried at cost plus accretion of bond discount, which approximates market value.

Cash in banks and specifically identifiable investments are classified according to credit risk into one of three categories and summarized as follows:

- Category 1 includes investments that are insured or registered or for which securities are held by the district or its agent in the district's name and deposits insured or collateralized with securities held by the district;
- Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the district's name and deposits collateralized with securities held by the pledging financial institution's trust department or agent in the district's name;
- Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the district's name.

All certificates of deposit are collateralized as required by California state law for any amount exceeding FDIC or FSLIC coverage. Collateral is held in trust by the institutions and monitored by the State Superintendent of Banking.

	Category		Carrying	Market	
	1	2	3	Amount	Value
Cash in County Treasury		\$16,879,769		\$16,879,769	\$16,879,769
Cash Held by Fiscal Agents		6,216,796		6,216,796	6,216,796
Cash in Banks	\$622,950	94,672		717,622	717,625
Total cash and cash equivalents	\$622,950	\$23,191,237		\$23,814,187	\$23,814,187
Investments:					
Certificates of Deposit		\$1,805,006			\$1,805,006
Total Investments		\$1,805,006			\$1,805,006

The certificates of deposit bear interest at rates ranging from 2.5% to 4.3%.

Note 4 - Accounts Receivable

Accounts receivable consist of the following at June 30, 2004:

Federal Grants and Contracts	\$11,034,298
Tuition and Fees	1,668,713
Auxiliaries	402,559
Other	132,975
	\$13,238,545

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2004, is summarized as follows:

	Beginning Balance July 1, 2003	Additions	Reductions	Ending Balance June 30, 2004
Land	26,845,352			26,845,352
Infrastructure	11,970,307	1,625,000		13,595,307
Buildings	125,405,188	5,700,200		131,105,388
Furniture	42,496,662	2,449,143	42,500	44,903,305
Library materials	27,216,915	1,523,780	218,000	28,522,695
Capitalized collections	1,163,240			1,163,240
Total	235,097,664	11,298,123	260,500	246,135,287
Less accumulated depreciation:				
Infrastructure	2,307,839	105,310	62,500	2,413,149
Buildings	26,314,820	4,275,407		30,590,227
Furniture, etc	14,453,953	2,105,861	42,500	16,517,314
Library materials	10,698,571	1,251,682	218,000	11,732,253
Capitalized collections	563,677	61,740		625,417
	54,338,860	7,800,000	260,500	61,878,360
Capital Assets, net	180,758,804	3,498,123	0	184,256,927

Note 6 – Short Term Debt – Tax Anticipation Notes

The District issues tax anticipation notes in advance of property tax collections, depositing the proceeds in its general fund. These notes are necessary because the District's operating expenses are continuous throughout the academic year while property tax collections are received approximately on their April 1 and October 1 due dates. Short-term activity for the year ended June 30, 2004, was as follows:

	Beginning Balance July 1, 2003 Issued		Redeemed	Ending Balance June 30, 2004
Tax Anticipation Notes	\$0	\$9,000,000	\$9,000,000	\$0
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Note 7 – Long- term Liabilities

Long-term liabilities for the year ended June 30, 2004, are summarized as follows:

	Beginning Balance			Ending Balance
	July 1, 2003	Additions	Reductions	June 30, 2004
Leases and bonds				
Lease obligations	\$4,621,742	\$856,475	\$867,849	\$4,610,368
General obligations	1,627,334	0	0	1,627,334
Revenue bonds	0	0	0	0
Total lease and bond obligations	6,249,076	856,475	867,849	6,237,702
Other liabilities				
Compensated absences	1,769,045	262,889	215,723	1,816,211
Total other liabilities	1,769,045	262,889	215,723	1,816,211
Total long-term obligations	\$8,018,121	\$1,119,364	\$1,083,572	\$8,053,913

Amounts due within one year include lease obligations of \$1,467,818 and compensated absences of \$1,510,049.

Note 8 - Revenue Bonds and Notes Payable

The outstanding bonded debt of Sample Community College District on June 30, 2004 is:

			Amount of		Redeemed	
Date of		Maturity	Original	Outstanding	Current	Outstanding
Issue	Interest	Rate %	Date	Issue	July 1, 20xx	Year
Jun 30, 2004						

Note 9 - Lease Obligations

The District has entered into various capital and non-cancelable operating leases for land, buildings, and equipment with lease terms in excess of one year. Future minimum lease payments under these agreements are as follows:

Fiscal Year	Minimum Lease Payments
2004-2005	\$ 455,303
2005-2006	470,783
2006-2007	486,790
2007-2008	503,340
2008-2009	520,454
2009-2013	2,980,022
2013-2018	3,404,099
2018-2023	1,529,181
Total Minimum Lease Payments	\$10,349,971

NOTE 10 - Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' retirement System, and classified employees are members of the Public Employees' Retirement System.

A. State Teachers' Retirement System (STRS)

1. Plan Descriptions

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The State Teachers' Retirement Plan (STRP), a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. Disability benefits are available up to 90 percent of final

compensation to members with five years of service. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CD Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

2. Funding Policy

Active members of the DB Plan are required to contribute 8.0% of their salary while the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2002-03 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The district contribution rate for the CB Benefit Program is always a minimum of 4% with the sum of the district and employee contribution always being equal or greater than 8%.

3. Annual Pension Cost

The District's total contributions to STRP for the fiscal years ended June 30, 2004, 2003, and 2002 were \$2,683,908, \$2,507,662, and \$2,496,378, respectively and equal 100% of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State. The revenue and expenditures associated with these payments, if any, have not been included in these financial statements.

In their most recent actuarial valuation of the DB Plan as of June 30, 2001, the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the DB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$2.2 billion. Based on this valuation, the current statutory contributions are sufficient to fund normal cost and amortize the actuarial unfunded obligation of \$2.2 billion by 2030. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

In their most recent actuarial valuation of the CB Plan as of June 30, 2001, the independent actuaries for STRS determined that, at June 30, 2001, the actuarial value of the CB program's actuarial accrued liabilities exceeded the program's actuarial value of assets by \$1.2 million. The STRS management is continually evaluating the impact of market fluctuations on the assets of the CB Program. However, future estimates of the actuarial unfunded obligation may change due to market performance, legislative actions and other membership related factors.

B. California Public Employees' Retirement System (CalPERS)

1. Plan Descriptions

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is less if the plan is coordinated with Social Security. Retirement after age 55 increases the monthly benefit percentage rate to a maximum of 2.5 percent at age 63. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

2. Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), and the district is required to contribute an actuarially determined rate. The district's contribution rate to CalPERS for fiscal year 2002-03 was 2.894% beginning with the first pay period ending in July 2002; CalPERS then lowered the rate to 2.771% beginning with the first pay period ending in February 2003. On May 16, 2003, CalPERS approved a school employer contribution rate of 10.42% beginning with the first pay period that ends in July 2003.

3. Annual Pension Cost

The District's contributions to CalPERS for fiscal years ending June 30, 2003, 2002, and 2001 were \$1,947,354, \$680,756, and \$0, respectively, and equaled 100 percent of the required contributions for each year. The actuarial assumptions used as part of the June 30, 2001, actuarial valuation (the most recent actuarial information available) included (a) an 8.25% investment rate of return (net of administrative expense); (b) an overall growth in payroll of 3.75% annually; and (c) an inflation component of 3.5% compounded annually that is a component of assumed wage growth, and assumed future post-retirement cost of living increases. The actuarial value of pension fund assets was determined by using a technique to smooth the effect of short-term volatility in the market value of investments.

Funded Status of Retirement Plans by Member Category

Member Category	6/30/98	6/30/99	6/30/00	6/30/01	6/30/02
State	120.0%	123.5%	110.5%	103.7%	90.3%
School	<u>135.8%</u>	<u>137.0%</u>	<u>124.2%</u>	<u>116.3%</u>	97.4%
Public Agency	129.6%	128.2%	127.3%	114.8%	N/A

C. Deferred Compensation

The district offers its employees a CalPERS administered 457 Deferred Compensation Program (Program). The plan, available to all permanent employees, permits them to defer a portion of pre-tax salary into investment of an individual's own choosing until future years. The deferred compensation is not available to the employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency. The CalPERS Board controls the investment and administrative functions of the CalPERS 457 Deferred Compensation Program. The Board for the exclusive benefit of participating employees, which adds security, holds the assets in trust.

During fiscal year 2002-03, Program membership grew to 12,729 from 10,472 with assets increasing from \$195.2 million to \$226.6 million, because of \$64.2 million in contributions, investment losses of \$21.5 million, and distributions and withdrawals paid to participants of \$10.4 million.

NOTE 11 – Joint Powers Agreement:

The District participates in two joint powers agreement (JPA) entities; the Alliance of Schools for Cooperative Insurance Programs (ASCIP); and the Schools Excess Liability Fund (SELF). The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes.

ASCIP arranges for and provides property, liability and excess workers' compensation insurance for its member school districts. The district pays a premium commensurate with the level of coverage requested.

SELF arranges for and provides a self-funded or additional insurance for excess liability fund fro approximately 1,100 public educational agencies. A board of 16 elected voting members, elected alternates and two ex-officio members, governs SELF. The board controls the operations of SELF, including selection of management and approval of operating budgets, independent of any influence by the members beyond their representation on the board. Each member pays an annual contribution based upon that calculated by SELF's board of directors and shares surpluses and deficits proportionately to its participation in SELF.

Condensed financial information of ASCIP and SELF for the most current information available is as follows:

	ASCIP	SELF
	6/30/2003	6/30/2002
	(Unaudited)	(Audited)
Total Assets	\$80,514,569	\$112,123,757
Total Liabilities	45,409,240	64,483,431
Retained Earnings	\$35,105,329	\$ 47,640,326
		_
Total Revenues	\$48,632,152	\$ 25,828,579
Total Expenditures	33,766,606	11,022,709
Net increase/(decrease in retained earnings	\$14,865,546	\$ 14,805,870

NOTE 12 – Functional Expenses

			Supplies		
			Materials &		
			Other		
		Employee	Expenses		
_	Salaries	Benefits	& Services	Depreciation	Total
In the state of A stirities	00 074 700	F 000 000	0.700.000		07.000.000
Instructional Activities	29,274,706	5,026,096	2,798,280		37,099,082
Academic Support	3,976,191	791,782	2,513,270		7,281,243
Student Services	6,560,715	1,170,461	1,606,419		9,337,595
Plant Ops & Maint.	2,783,334	722,932	4,508,339		8,014,605
Instructional Support Services	4,721,727	3,339,256	3,057,380		11,118,363
Community Services & Economic	745,536	80,326	466,380		1,292,242
Development					
Ancillary Services & Auxiliary	1,494,072	321,303	7,254,799		9,067,174
Operations					
Physical Property & Related	149,107	22,950	3,705,129		3,877,186
Acquisitions					
Depreciation. Expense				7,800,000	7,800,000
Total.	49,702,388	11,475,106	25,909,996	7,800,000	94,887,490

NOTE 13 - Commitments And Contingencies

A. Vacation and Sick Leave (Compensated Absences) – Accumulated unpaid employee vacation benefits are accrued when earned by employees and recognized at year-end as liabilities of the District. The District also participates in and accrues "load banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for eligible employees when they retire. Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. However, the employees do not gain a vested right to accumulated sick leave nor are they paid for any sick leave balance at termination of employment or any other time. It is, therefore, not appropriate to accrue the value of accumulated sick leave. See note 7 for the accrued balance of compensated absences as of June 30, 2004.

- B. Leases The District has entered into various operating eases for land, buildings and equipment. All leases contain termination clauses providing for cancellation after days written notice to lessors. It is expected that in the normal course of business most of these leases will be replaced by similar leases. See note 9 for minimum lease payments of operating leases as of June 30, 2004.
- C. State and Federal Allowances, Awards and Grants The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of

the grants, it is believed that any required reimbursements will not be material. The District has, however, overreported attendance in certain adult education off-campus courses that may result in the repayment to the state for the overclaimed and reimbursed FTES. The actual overstatement of attendance hours and repayment, if any, has not been determined.

NOTE 14 - SUBSEQUENT EVENTS (If applicable.)

NOTE 15 – STRS Early Retirement Incentive Program

The District has adopted an early retirement incentive program pursuant to Education Code Sections 22714 and 87488, whereby the service credit to eligible employees is increased by two years (and age is increased by two years). Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District (retire during the window period in the formal action taken by the district's governing board).

Retiree Information

Position		Service	Retireed E	<u>mployee</u>	Replacement E	<u>Employee</u>
<u>Vacated</u>	<u>Age</u>	<u>Credit</u>	<u>Salary</u>	<u>Benefits</u>	<u>Salary</u>	<u>Benefits</u>
Instructor	63	29	\$86,000	\$10,000	\$36,000	\$5,000
Instructor	68	26	84,000	10,000	0	0
Counselor	72	30	<u>75,000</u>	<u>12,000</u>	<u>29,000</u>	<u>4,500</u>
			\$245,000	\$32,000	\$65,000	\$9,500

Additional Costs to Employer:

As a result of this early retirement incentive program, the District has incurred (or expects to incur) \$205,000 in additional costs. The breakdown in additional costs is presented below:

Retirement Costs (including interest, if applicable)	\$175,000
Post retirement Health and Benefit Costs	25,000
Administrative Costs	5,000
Total Additional Costs	<u>\$205,000</u>

(Space intentionally left blank.)

Independent Auditor's Report on Supplementary Information

Board of Trustees Sample Community College District Goldfield, California 95814

We have audited the basic financial statements of Sample Community College District (District) for the year ended June 30, 2004, and have issued our report thereon dated December 8, 2004. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the standards identified by the *California Community Colleges Contracted District Audit Manual*, issued by the Chancellor's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the business-type activities and discretely presented component unit of the Sample Community College District, which collectively comprise the District's basic financial statements. The accompanying supplementary information, presented for purposes of additional analysis, is not a required part of the basic financial statements and includes the following supplementary information:

- Schedule of Expenditures of Federal Awards required by OMB Circular A-133.
- Schedule of Expenditures of State Awards.
- Schedule of Workload Measures for <u>State General Apportionment</u> Program Based Funding and Annual Apprenticeship Hours of Instruction.
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with District Accounting Records.
- Notes to the Supplementary Information.

The information in these supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

[Signature]		

[Date]

Sample Community College District Organization

June 30, 2004

The Sample Community College District was established on July 1, 1963, and is comprised of an area of approximately 12 square miles located in Sacramento County. There were no changes in the boundaries of the District during the current year.

GOVERNING BOARD

<u>Name</u>	Office	Term Expires
Mr. David Johnson	President	April 2005
Mr. Norman Richards	Secretary	April 2006
Mrs. Jan McDonald	Member	April 2006
Mr. James Wilde	Member	April 2007
Mrs. Louise Hanson	Member	April 2005

ADMINISTRATION

Dr. Georgia Scott Superintendent

Mr. Thomas Sharp Assistant Superintendent

Mrs. Mildred Coleman Assistant Superintendent

Sample Community College District Schedule of Expenditures of Federal Awards for the year ended June 30, 2004

		Pass-Through	
Federal Grantor/	Federal	Entity	
Pass-Through Entity	CFDA	Identifying	Tatal Cadaval
Program or Cluster Title	Number	Number	Total Federal
U.S. Department of Education			
Financial Aid Cluster:			
College Work Study	84.033		\$xxx,xxx
Perkins Loan	84.038		xxx,xxx
Pell Grant	84.063		xxx,xxx
Adult Basic Education (ABE)			,
Adult Basic Education	84.002		XXX,XXX
ABE - Citizenship	84.002		xxx,xxx
ABE - ESL	84.002		xxx,xxx
			•
Upward Bound	84.047		xxx,xxx
Talent Search II	84.044		xxx,xxx
Student Support Services	84.042		xxx,xxx
Title III - Strengthening Institutions	84.031		xxx,xxx
Pass through California Department of Education (CDE):			
Vocational And Technical Education Act (VTEA)			
Tech Prep VTEA, Education	84.048		xxx,xxx
Title I-C VTEA	84.048		xxx,xxx
U.S. Department of Health and Human Services:			
Passed through CDE:			
Temporary Assistance to Needy Families (TANF)	93.558		xxx,xxx
Department of Labor.			
Department of Labor:			2007.2007
WIA Assessment			XXX,XXX
Department of Agriculture:			
FC Childcare Food Program			xxx,xxx

Sample Community College District Schedule of State Financial Awards for the year ended June 30, 2004

	Program Revenues				
Program Name	Cash Received	Accounts Receivable	Deferred Income	Total	Total Program Expenditures
State Awards					
Disabled Student Program & Services	\$xxx,xxx	\$xx,xxx	\$x,xxx	\$xxx,xxx	\$xxx,xxx
Extended Opportunity Program & Services	xxx,xxx	XX,XXX	x,xxx	XXX,XXX	XXX,XXX
Cal Grant					
CalWorks					
Care Program					
Child Development Center					
Economic Development					
Funds for Student Success					
Block Grant					
Instructional Equipment – Block Grant					
Matriculation					
Multimedia					
State Block Grant FY xx					
State Funds for Instructional Materials					
Teacher & Reading Development Partnership					
Temporary Assistance to Needy Family (TANF)					
Telecommunication Technology Infrastructure Program (TTIP)					
Scheduled Maintenance					
General Childcare Grant					
Staff Development					
Total State Programs					

Contracted District Audit Manual
April 2007

April 2007

Sample Community College District Schedule of Workload Measures for State General Apportionment Annual (Actual) Annualized Attendance as of June 30, 2007

	Reported	Audit	Revised
Categories	Data	Adjustments	Data
A. Summer Intersession (Summer 2006 only)			
1. Noncredit ¹			
2. Credit			
B. Summer Intersession (Summer 2007 – Prior to July 1, 2007			
1, Noncredit1			
2. Credit			
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours			
(b) Daily Census Contact Hours			
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit ₁			
(b) Credit			
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours			
(b) Daily Census Contact Hours			
(c) Noncredit Independent Study/Distance			
Education Courses			

D. Total FTES

Supplemental Information (subset of above information)

- E. In-Service Training Courses (FTES)
- H. Basic Skills courses and Immigrant Education
 - (a) Noncredit1
 - (b) Credit

CCFS 320 Addendum

CDCP Noncredit FTES

Centers FTES

- (a) Noncredit1
- (b) Credit

¹ Including Career Development and College Preparation (CDCP) FTES

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Sample Community College District Schedule of Annual Apprenticeship Hours of Instruction Annualized Attendance as of June 30, 2004

Schedule omitted

Sample Community College District Reconciliation of Annual Financial and Budget Report (CCFS-311) With District Accounting System

for the fiscal year ended June 30, 2004

		Special		Debt
	General	Revenue	Capital	Service
	Fund	Fund	Projects Fund	Fund
-			•	
June 30, 2004, Annual Financial and Budget Report (Form CCFS-311) Fund Balances				
Adjustments and Reclassifications increasing (decreasing) fund balance: Prior Year Post Closing Entries Post Closing Entries Under (Over) Statement of Accounts Receivable (Under) Over Statement of Accounts Payable (Under) Over Statement of Deferred Revenue (Under) Statement of Accrued Vacation Reclassification of interfund operating transfers Other				
Net Adjustments and Reclassifications				
June 30, 2004 Audited Financial Statements Fund Balance				

Sample Community College District Notes to Supplemental Information

for the year ended June 30, 2004

NOTE 1 - Purpose Of Schedules

The audit of the Sample Community College District for the year ended June 30, 2004 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Federal Awards and the Schedule of State Financial Assistance was prepared for the Sample Community College District.

The Schedules of Workload Measures for State General Apportionment and Annual Apprenticeship Hours of Instruction represent the basis of apportionment of the Sample Community College District's annual source of funding.

NOTE 2 - Results Of Reconciliation Of Expenditure Per Schedule of Grant Activity With The District's Accounting System

The following is a list of the grants and the unreconciled differences between the District's records and the schedule of federal grant activity:

<u>Grant</u>	<u>Difference</u>

Independent Auditor's Report on State Compliance

Board of Trustees Sample Community College District Goldfield, California 95814

We have audited the financial statements of the Sample Community College District for the year ended June 30, 2004, and have issued our report thereon dated ______, 2004.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with Section 400 of the Chancellor's Office's California Community Colleges Contracted District Audit Manual (CDAM):

[List the areas of compliance tested based on the latest update of the CDAM.]

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, [include if applicable "except for findings xx-x and xx-x described in the accompanying schedule of finding and questioned costs"], the Sample Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2004.

This report is intended solely for the information and use of the District's management, the Board of Trustees, audit committee, and others within the District, the California Community Colleges Chancellor's Office, The California Department of finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

Independent Auditor's Report on Compliance with Requirements Applicable To Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Trustees Sample Community College District Goldfield, California 95814

Compliance

We have audited the compliance of the Sample Community College District (the District) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of

laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses. [Add if necessary "However, we noted other matters involving internal control over financial reporting that we have reported to management of the District in a separate letter dated date of letter.]

This report is intended solely for the information and use of the Board of Trustees, District management, and the District's federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance With Government Auditing Standards

Board of Trustees Sample Community College District Goldfield, California 95814

We have audited the basic financial statements of Sample Community College District (the District) as of and for the year ended June 30, 2004, and have issued our report thereon dated [date of auditor's opinion]. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. [If noncompliance was noted, include the following sentence instead of the previous sentence – "Described in the accompanying schedule of findings and questioned costs are the results of our tests. Instances of noncompliance are reported as required under Government Auditing Standards.']

Internal control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses. fif reportable conditions were noted, use the following sentences in place of the preceding sentence - "However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs Related to the General Purpose Financial Statements."] However, we noted other matters involving internal control

over financial reporting that we have reported to management of the District in a separate letter dated [date of letter.]

This report is intended solely for the information and use of the Board of Trustees, District management and the District's federal and state awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

[Signature]

[Date]

Sample Community College District Schedule of Findings and Questioned Costs For the Year Ended June 30, 2004

Summary of Auditors' Results

Financial Statements	
Type of opinion on financial statements:	
Internal control over financial reporting:	
Material Weakness Identified?	
Conditions identified but not considered to be material weaknesses?	
Noncompliance material to financial statements noted?	
Federal Awards	
Internal control over major programs:	
Material weakness identified?	
Conditions identified but not considered to be material weaknesses?	
Type of opinion issued on compliance for major programs: Any audit findings disclosed that are required to be reported in accordance With Circular A-133, Section .510(a)?	
Identification of major programs:	
CFDA Number Name of Federal Program or Cluster	
Dollar threshold used to distinguish between Type A and Type B programs:	
Auditee qualified as low-risk auditee?	
State Awards	
Internal control over state programs:	
Material weakness identified?	
Reporting conditions identified not considered material weaknesses?	
Type of oninion issued on compliance for state programs:	

Financial Statement Findings for the Year Ended June 30, 2004

The following findings represent reportable conditions related to the financial statements that are required to be reported in accordance with generally accepted government audit standards. [Insert each finding in the section below with its appropriate number.]

20xx -1 Finding

[Insert Finding]

Recommendation

[Insert Recommendation]

District Response

[Insert the District's Response]

Federal Award Findings and Questioned Costs for the Year Ending 2004

[Insert identified condition, recommendation and the District's response for each federal award finding noted.]

State Award Findings and Questioned Costs for the Year Ending 2004

[Insert identified condition, recommendation and the District's response for each state award finding noted.]

Sample Community College District Summary Schedule of Prior Audit Findings

June 30, 2004

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of audit findings and questioned costs and of any other as yet unresolved audit finding from previous years.

Finding			
Reference			Explanation if Not Fully
Number ²⁰	Recommendation	Current Status	Implemented

Use the identification number referenced by the California Community Colleges in their follow-up activities.

<u>California Home</u> Monday, April 30, 2007

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Budget and Accounting Manual





• Fiscal Services Home

Fiscal Services Accounting Advisories

- FS 05-05: Monitoring and Assessment of Fiscal Condition, October 25, 2005
- FS 05-02: The Fifty Percent Law and the CCFS-311, June 10, 2005
- Accounting Advisory No. 98-02: Enrollment Fee Revenue
- Accounting Advisory No. 96-02: Post-Employment Health Coverage/ Benefit Costs

Please direct comments and questions about this web page to: Elias Regalado

Phone: 916-445-1165

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IMPORTANT

The FAC is not authorized to grant extensions of the deadline for filing OMB Circular A-133 submissions. The auditee should contact their cognizant/oversight agency to request an extension. For information on cognizant or oversight agencies, please refer to Sections 400a & 400b of Circular A-133.

Data Collection Form Options



Enter Form SF-SAC Data Online: Internet Data Entry System for all versions of Form SF-SAC and all audit years. Includes online edits

- Online Instructions for Audit Years 1997-2000
- Online Instructions for Audit Years 2001 2003



Online Instructions for Audit Years 2004 - 2006





Form SF-SAC and Instructions - pdf versions (download adobe acrobat)

(Note: This option is not to be used as an online template, please use Option 1 for online data entry.)

Fiscal Period End Dates 2004, 2005, 2006

Form SF-SAC and Instructions



Summary of Changes



Fiscal Period End Dates 2001, 2002, 2003

Form SF-SAC and Instructions



Fiscal Period End Dates 1997, 1998, 1999, 2000

Form SF-SAC and Instructions





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Email questions and comments to the FAC Staff at govs.fac@census.gov

Federal Audit Clearinghouse Internet Privacy Policy

Circular No. A-133

Revised to show changes published in the *Federal Register* June 27, 2003 Audits of States, Local Governments, and Non-Profit Organizations

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Audits of States, Local Governments, and Non-Profit Organizations

- 1. <u>Purpose</u>. This Circular is issued pursuant to the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards.
- 2. <u>Authority</u>. Circular A-133 is issued under the authority of sections 503, 1111, and 7501 *et seq*. of title 31, United States Code, and Executive Orders 8248 and 11541.
- 3. <u>Rescission and Supersession</u>. This Circular rescinds Circular A-128, "Audits of State and Local Governments," issued April 12, 1985, and supersedes the prior Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Institutions," issued April 22, 1996. For effective dates, see paragraph 10.
- 4. <u>Policy</u>. Except as provided herein, the standards set forth in this Circular shall be applied by all Federal agencies. If any statute specifically prescribes policies or specific requirements that differ from the standards provided herein, the provisions of the subsequent statute shall govern.

Federal agencies shall apply the provisions of the sections of this Circular to non-Federal entities, whether they are recipients expending Federal awards received directly from Federal awarding agencies, or are subrecipients expending Federal awards received from a pass-through entity (a recipient or another subrecipient).

This Circular does not apply to non-U.S. based entities expending Federal awards received either directly as a recipient or indirectly as a subrecipient.

- 5. <u>Definitions</u>. The definitions of key terms used in this Circular are contained in § .105 in the Attachment to this Circular.
- 6. Required Action. The specific requirements and responsibilities of Federal agencies and non-Federal entities are set forth in the Attachment to this Circular. Federal agencies making awards to non-Federal entities, either directly or indirectly, shall adopt the language in the Circular in codified regulations as provided in Section 10 (below), unless different provisions are required by Federal statute or are approved by the Office of Management and Budget (OMB).
- 7. OMB Responsibilities. OMB will review Federal agency regulations and implementation of this Circular, and will provide interpretations of policy requirements and assistance to ensure uniform, effective and efficient implementation.
- 8. <u>Information Contact</u>. Further information concerning Circular A-133 may be obtained by contacting the Financial Standards and Reporting Branch, Office of Federal Financial Management, Office of Management and Budget, Washington, DC 20503, telephone (202) 395-3993.

- 9. <u>Review Date</u>. This Circular will have a policy review three years from the date of issuance.
- 10. <u>Effective Dates</u>. The standards set forth in §___.400 of the Attachment to this Circular, which apply directly to Federal agencies, shall be effective July 1, 1996, and shall apply to audits of fiscal years beginning after June 30, 1996, except as otherwise specified in §___.400(a).

The standards set forth in this Circular that Federal agencies shall apply to non-Federal entities shall be adopted by Federal agencies in codified regulations not later than 60 days after publication of this final revision in the Federal Register, so that they will apply to audits of fiscal years beginning after June 30, 1996, with the exception that §____.305(b) of the Attachment applies to audits of fiscal years beginning after June 30, 1998. The requirements of Circular A-128, although the Circular is rescinded, and the 1990 version of Circular A-133 remain in effect for audits of fiscal years beginning on or before June 30, 1996.

The revisions published in the *Federal Register* June 27, 2003, are effective for fiscal years ending after December 31, 2003, and early implementation is not permitted with the exception of the definition of oversight agency for audit which is effective July 28, 2003.

Augustine T. Smythe Acting Director

Attachment

PART	AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS
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100	Purpose. Definitions.
200 205 210 215 220 225	BAudits Audit requirements. Basis for determining Federal awards expended. Subrecipient and vendor determinations. Relation to other audit requirements. Frequency of audits. Sanctions. Audit costs. Program-specific audits.
300 305 310 315	CAuditees Auditee responsibilities. Auditor selection. Financial statements. Audit findings follow-up. Report submission.
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Subpart A--General §___.100 Purpose.

This part sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards.

§ .105 Definitions.

<u>Auditee</u> means any non-Federal entity that expends Federal awards which must be audited under this part.

<u>Auditor</u> means an auditor, that is a public accountant or a Federal, State or local government audit organization, which meets the general standards specified in generally accepted government auditing standards (GAGAS). The term <u>auditor</u> does not include internal auditors of non-profit organizations.

Audit finding means deficiencies which the auditor is required by .510(a) to report in the schedule of findings and questioned costs.

 $\underline{\text{CFDA number}}$ means the number assigned to a Federal program in the $\underline{\text{Catalog of Federal Domestic Assistance}}$ (CFDA).

Cluster of programs means a grouping of closely related programs that share common compliance requirements. The types of clusters of programs are research and development (R&D), student financial aid (SFA), and other clusters. "Other clusters" are as defined by the Office of Management and Budget (OMB) in the compliance supplement or as designated by a State for Federal awards the State provides to its subrecipients that meet the definition of a cluster of programs. When designating an "other cluster," a State shall identify the Federal awards included in the cluster and advise the subrecipients of compliance requirements applicable to the cluster, consistent with §__.400(d)(1) and §__.400(d)(2), respectively. A cluster of programs shall be considered as one program for determining major programs, as described in §__.520, and, with the exception of R&D as described in §_.200(c), whether a program-specific audit may be elected.

<u>Compliance supplement</u> refers to the <u>Circular A-133 Compliance</u>
<u>Supplement</u>, included as Appendix B to Circular A-133, or such documents as OMB or its designee may issue to replace it. This document is available from the Government Printing Office, Superintendent of Documents, Washington, DC 20402-9325.

Corrective action means action taken by the auditee that:

- (1) Corrects identified deficiencies;
- (2) Produces recommended improvements; or
- (3) Demonstrates that audit findings are either invalid or do not warrant auditee action.

Federal agency has the same meaning as the term agency in Section 551(1) of title 5, United States Code.

<u>Federal award</u> means Federal financial assistance and Federal costreimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors. Any audits of such vendors shall be covered by the terms and conditions of the contract. Contracts to operate Federal Government owned, contractor operated facilities (GOCOs) are excluded from the requirements of this part.

 $\underline{\text{Federal awarding agency}}$ means the Federal agency that provides an award directly to the recipient.

Federal financial assistance means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals as described in §___.205(h) and §___.205(i).

Federal program means:

- (1) All Federal awards to a non-Federal entity assigned a single number in the CFDA.
- (2) When no CFDA number is assigned, all Federal awards from the same agency made for the same purpose should be combined and considered one program.
- (3) Notwithstanding paragraphs (1) and (2) of this definition, a cluster of programs. The types of clusters of programs are:
 - (i) Research and development (R&D);
 - (ii) Student financial aid (SFA); and
- (iii) "Other clusters," as described in the definition of cluster of programs in this section.

 $\underline{\text{GAGAS}}$ means generally accepted government auditing standards issued by the Comptroller General of the United States, which are applicable to financial audits.

 $\underline{\text{Generally accepted accounting principles}} \text{ has the meaning specified in generally accepted auditing standards issued by the American Institute of Certified Public Accountants (AICPA).}$

<u>Indian tribe</u> means any Indian tribe, band, nation, or other organized group or community, including any Alaskan Native village or regional or village corporation (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized by the United States as eligible for the special programs and services provided by the United States to Indians because of their status as Indians.

<u>Internal control</u> means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Effectiveness and efficiency of operations;
- (2) Reliability of financial reporting; and
- (3) Compliance with applicable laws and regulations.

<u>Internal control pertaining to the compliance requirements for Federal programs</u> (Internal control over Federal programs) means a process--effected by

an entity's management and other personnel--designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs:

- (1) Transactions are properly recorded and accounted for to:
- $% \left(1\right) =0$). Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; and
- (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;
 - (2) Transactions are executed in compliance with:
- (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
- $\,$ (ii) Any other laws and regulations that are identified in the compliance supplement; and
- (3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

 $\underline{\text{Loan}}$ means a Federal loan or loan guarantee received or administered by a non-Federal entity.

<u>Local government</u> means any unit of local government within a State, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, and any other instrumentality of local government.

<u>Management decision</u> means the evaluation by the Federal awarding agency or pass-through entity of the audit findings and corrective action plan and the issuance of a written decision as to what corrective action is necessary.

 $\underline{\text{Non-Federal entity}}$ means a State, local government, or non-profit organization.

Non-profit organization means:

- (1) any corporation, trust, association, cooperative, or other organization that:
- (i) Is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;
 - (ii) Is not organized primarily for profit; and
- (iii) Uses its net proceeds to maintain, improve, or expand its operations; and
- (2) The term $\underline{\text{non-profit organization}}$ includes non-profit institutions of higher education and hospitals.

 $\underline{\text{OMB}}$ means the Executive Office of the President, Office of Management and Budget.

Oversight agency for audit means the Federal awarding agency that provides the predominant amount of direct funding to a recipient not assigned a cognizant agency for audit. When there is no direct funding, the Federal agency with the predominant indirect funding shall assume the oversight responsibilities. The duties of the oversight agency for audit are described in § .400(b).

Effective July 28, 2003, the following is added to this definition: A Federal agency with oversight for an auditee may reassign oversight to another Federal agency which provides substantial funding and agrees to be the oversight agency for audit. Within 30 days after any reassignment, both the old and the new oversight agency for audit shall notify the auditee, and, if known, the auditor of the reassignment."

<u>Pass-through entity</u> means a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.

<u>Program-specific audit</u> means an audit of one Federal program as provided for in \S ___.200(c) and \S ___.235.

<u>Questioned cost</u> means a cost that is questioned by the auditor because of an audit finding:

- (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;
- (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

<u>Recipient</u> means a non-Federal entity that expends Federal awards received directly from a Federal awarding agency to carry out a Federal program.

Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-Federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

<u>Single audit</u> means an audit which includes both the entity's financial statements and the Federal awards as described in §___.500.

<u>State</u> means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the

Pacific Islands, any instrumentality thereof, any multi-State, regional, or interstate entity which has governmental functions, and any Indian tribe as defined in this section.

Student Financial Aid (SFA) includes those programs of general student assistance, such as those authorized by Title IV of the Higher Education Act of 1965, as amended, (20 U.S.C. 1070 et seq.) which is administered by the U.S. Department of Education, and similar programs provided by other Federal agencies. It does not include programs which provide fellowships or similar Federal awards to students on a competitive basis, or for specified studies or research.

<u>Subrecipient</u> means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency. Guidance on distinguishing between a subrecipient and a vendor is provided in § .210.

Types of compliance requirements refers to the types of compliance requirements listed in the compliance supplement. Examples include: activities allowed or unallowed; allowable costs/cost principles; cash management; eligibility; matching, level of effort, earmarking; and, reporting.

<u>Vendor</u> means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the Federal program. Additional guidance on distinguishing between a subrecipient and a vendor is provided in §___.210.

Subpart B--Audits

§ .200 Audit requirements.

- (a) <u>Audit required</u>. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in §___.205.
- (b) <u>Single audit</u>. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single audit conducted in accordance with §___.500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.
- (c) <u>Program-specific audit election</u>. When an auditee expends Federal awards under only one Federal program (excluding R&D) and the Federal program's laws, regulations, or grant agreements do not require a financial statement audit of the auditee, the auditee may elect to have a program-specific audit conducted in accordance with §___.235. A program-specific audit may not be elected for R&D unless all of the Federal awards expended were received from the same Federal agency, or the same Federal agency and the same pass-through entity, and that Federal agency, or pass-through entity in the case of a subrecipient, approves in advance a program-specific audit.
- (d) <u>Exemption when Federal awards expended are less than \$300,000</u> (\$500,000 for fiscal years ending after December 31, 2003). Non-Federal

entities that expend less than \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) a year in Federal awards are exempt from Federal audit requirements for that year, except as noted in §___.215(a), but records must be available for review or audit by appropriate officials of the Federal agency, pass-through entity, and General Accounting Office (GAO).

(e) <u>Federally Funded Research and Development Centers (FFRDC)</u>. Management of an auditee that owns or operates a FFRDC may elect to treat the FFRDC as a separate entity for purposes of this part.

§____.205 Basis for determining Federal awards expended.

- (a) <u>Determining Federal awards expended</u>. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and, the period when insurance is in force.
- (b) <u>Loan and loan guarantees (loans)</u>. Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines shall be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section:
- (1) Value of new loans made or received during the fiscal year; plus
- (2) Balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus
- $\mbox{(3)}$ Any interest subsidy, cash, or administrative cost allowance received.
- (c) <u>Loan and loan quarantees (loans) at institutions of higher</u>
 <u>education</u>. When loans are made to students of an institution of higher
 education but the institution does not make the loans, then only the value of
 loans made during the year shall be considered Federal awards expended in that
 year. The balance of loans for previous years is not included as Federal
 awards expended because the lender accounts for the prior balances.
- (d) <u>Prior loan and loan guarantees (loans)</u>. Loans, the proceeds of which were received and expended in prior-years, are not considered Federal awards expended under this part when the laws, regulations, and the provisions of contracts or grant agreements pertaining to such loans impose no continuing compliance requirements other than to repay the loans.
- (e) <u>Endowment funds</u>. The cumulative balance of Federal awards for endowment funds which are federally restricted are considered awards expended in each year in which the funds are still restricted.
- (f) <u>Free rent</u>. Free rent received by itself is not considered a Federal award expended under this part. However, free rent received as part

of an award to carry out a Federal program shall be included in determining Federal awards expended and subject to audit under this part.

- (g) <u>Valuing non-cash assistance</u>. Federal non-cash assistance, such as free rent, food stamps, food commodities, donated property, or donated surplus property, shall be valued at fair market value at the time of receipt or the assessed value provided by the Federal agency.
- (h) <u>Medicare</u>. Medicare payments to a non-Federal entity for providing patient care services to Medicare eligible individuals are not considered Federal awards expended under this part.
- (i) <u>Medicaid</u>. Medicaid payments to a subrecipient for providing patient care services to Medicaid eligible individuals are not considered Federal awards expended under this part unless a State requires the funds to be treated as Federal awards expended because reimbursement is on a costreimbursement basis.
- (j) <u>Certain loans provided by the National Credit Union</u>
 <u>Administration</u>. For purposes of this part, loans made from the National
 Credit Union Share Insurance Fund and the Central Liquidity Facility that are
 funded by contributions from insured institutions are not considered Federal
 awards expended.

§___.210 Subrecipient and vendor determinations.

- (a) <u>General</u>. An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered Federal awards. The guidance in paragraphs (b) and (c) of this section should be considered in determining whether payments constitute a Federal award or a payment for goods and services.
- (b) <u>Federal award</u>. Characteristics indicative of a Federal award received by a subrecipient are when the organization:
- $\hbox{(1)} \quad \hbox{Determines who is eligible to receive what Federal financial assistance;}$
- (2) Has its performance measured against whether the objectives of the Federal program are met;
 - (3) Has responsibility for programmatic decision making;
- (4) Has responsibility for adherence to applicable Federal program compliance requirements; and
- (5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.
- (c) <u>Payment for goods and services</u>. Characteristics indicative of a payment for goods and services received by a vendor are when the organization:
- (1) Provides the goods and services within normal business operations;

- (2) Provides similar goods or services to many different purchasers;
 - (3) Operates in a competitive environment;
- (4) Provides goods or services that are ancillary to the operation of the Federal program; and
- (5) Is not subject to compliance requirements of the Federal program.
- (d) <u>Use of judgment in making determination</u>. There may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor.
- (e) <u>For-profit subrecipient</u>. Since this part does not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements, as necessary, to ensure compliance by for-profit subrecipients. The contract with the for-profit subrecipient should describe applicable compliance requirements and the for-profit subrecipient's compliance responsibility. Methods to ensure compliance for Federal awards made to for-profit subrecipients may include pre-award audits, monitoring during the contract, and post-award audits.
- (f) Compliance responsibility for vendors. In most cases, the auditee's compliance responsibility for vendors is only to ensure that the procurement, receipt, and payment for goods and services comply with laws, regulations, and the provisions of contracts or grant agreements. Program compliance requirements normally do not pass through to vendors. However, the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance. Also, when these vendor transactions relate to a major program, the scope of the audit shall include determining whether these transactions are in compliance with laws, regulations, and the provisions of contracts or grant agreements.

§___.215 Relation to other audit requirements.

- (a) Audit under this part in lieu of other audits. An audit made in accordance with this part shall be in lieu of any financial audit required under individual Federal awards. To the extent this audit meets a Federal agency's needs, it shall rely upon and use such audits. The provisions of this part neither limit the authority of Federal agencies, including their Inspectors General, or GAO to conduct or arrange for additional audits (e.g., financial audits, performance audits, evaluations, inspections, or reviews) nor authorize any auditee to constrain Federal agencies from carrying out additional audits. Any additional audits shall be planned and performed in such a way as to build upon work performed by other auditors.
- (b) <u>Federal agency to pay for additional audits</u>. A Federal agency that conducts or contracts for additional audits shall, consistent with other applicable laws and regulations, arrange for funding the full cost of such additional audits.

(c) Request for a program to be audited as a major program. A Federal agency may request an auditee to have a particular Federal program audited as a major program in lieu of the Federal agency conducting or arranging for the additional audits. To allow for planning, such requests should be made at least 180 days prior to the end of the fiscal year to be audited. The auditee, after consultation with its auditor, should promptly respond to such request by informing the Federal agency whether the program would otherwise be audited as a major program using the risk-based audit approach described in \$___.520 and, if not, the estimated incremental cost. The Federal agency shall then promptly confirm to the auditee whether it wants the program audited as a major program. If the program is to be audited as a major program based upon this Federal agency request, and the Federal agency agrees to pay the full incremental costs, then the auditee shall have the program audited as a major program. A pass-through entity may use the provisions of this paragraph for a subrecipient.

§___.220 Frequency of audits.

Except for the provisions for biennial audits provided in paragraphs (a) and (b) of this section, audits required by this part shall be performed annually. Any biennial audit shall cover both years within the biennial period.

- (a) A State or local government that is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually, is permitted to undergo its audits pursuant to this part biennially. This requirement must still be in effect for the biennial period under audit.
- (b) Any non-profit organization that had biennial audits for all biennial periods ending between July 1, 1992, and January 1, 1995, is permitted to undergo its audits pursuant to this part biennially.

§___.225 Sanctions.

No audit costs may be charged to Federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In cases of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate action using sanctions such as:

- (a) Withholding a percentage of Federal awards until the audit is completed satisfactorily;
 - (b) Withholding or disallowing overhead costs;
 - (c) Suspending Federal awards until the audit is conducted; or
 - (d) Terminating the Federal award.

§___.230 Audit costs.

(a) <u>Allowable costs</u>. Unless prohibited by law, the cost of audits made in accordance with the provisions of this part are allowable charges to Federal awards. The charges may be considered a direct cost or an allocated indirect cost, as determined in accordance with the provisions of applicable OMB cost principles circulars, the Federal Acquisition Regulation (FAR) (48 CFR parts 30 and 31), or other applicable cost principles or regulations.

- (b) <u>Unallowable costs</u>. A non-Federal entity shall not charge the following to a Federal award:
- (1) The cost of any audit under the Single Audit Act Amendments of 1996 (31 U.S.C. 7501 et seq.) not conducted in accordance with this part.
- (2) The cost of auditing a non-Federal entity which has Federal awards expended of less than \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) per year and is thereby exempted under \$__.200(d) from having an audit conducted under this part. However, this does not prohibit a pass-through entity from charging Federal awards for the cost of limited scope audits to monitor its subrecipients in accordance with \$__.400(d)(3), provided the subrecipient does not have a single audit. For purposes of this part, limited scope audits only include agreed-upon procedures engagements conducted in accordance with either the AICPA's generally accepted auditing standards or attestation standards, that are paid for and arranged by a pass-through entity and address only one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility; matching, level of effort, earmarking; and, reporting.

§___.235 Program-specific audits.

- (a) <u>Program-specific audit guide available</u>. In many cases, a program-specific audit guide will be available to provide specific guidance to the auditor with respect to internal control, compliance requirements, suggested audit procedures, and audit reporting requirements. The auditor should contact the Office of Inspector General of the Federal agency to determine whether such a guide is available. When a current program-specific audit guide is available, the auditor shall follow GAGAS and the guide when performing a program-specific audit.
- (b) <u>Program-specific audit guide not available</u>. (1) When a program-specific audit guide is not available, the auditee and auditor shall have basically the same responsibilities for the Federal program as they would have for an audit of a major program in a single audit.
- (2) The auditee shall prepare the financial statement(s) for the Federal program that includes, at a minimum, a schedule of expenditures of Federal awards for the program and notes that describe the significant accounting policies used in preparing the schedule, a summary schedule of prior audit findings consistent with the requirements of §___.315(b), and a corrective action plan consistent with the requirements of §___.315(c).

(3) The auditor shall:

- (i) Perform an audit of the financial statement(s) for the Federal program in accordance with GAGAS;
- (ii) Obtain an understanding of internal control and
 perform tests of internal control over the Federal program consistent with the
 requirements of \$___.500(c) for a major program;
- (iii) Perform procedures to determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on the Federal program consistent with the requirements of §___.500(d) for a major program; and

- (iv) Follow up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee, and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding in accordance with the requirements of §___.500(e).
- (4) The auditor's report(s) may be in the form of either combined or separate reports and may be organized differently from the manner presented in this section. The auditor's report(s) shall state that the audit was conducted in accordance with this part and include the following:
- (i) An opinion (or disclaimer of opinion) as to whether the financial statement(s) of the Federal program is presented fairly in all material respects in conformity with the stated accounting policies;
- (ii) A report on internal control related to the Federal program, which shall describe the scope of testing of internal control and the results of the tests;
- (iii) A report on compliance which includes an opinion (or disclaimer of opinion) as to whether the auditee complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on the Federal program; and
- (iv) A schedule of findings and questioned costs for the Federal program that includes a summary of the auditor's results relative to the Federal program in a format consistent with \S __.505(d)(1) and findings and questioned costs consistent with the requirements of \S __.505(d)(3).
 - (c) Report submission for program-specific audits.
- (1) The audit shall be completed and the reporting required by paragraph (c)(2) or (c)(3) of this section submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the Federal agency that provided the funding or a different period is specified in a program-specific audit guide. (However, for fiscal years beginning on or before June 30, 1998, the audit shall be completed and the required reporting shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period, unless a different period is specified in a program-specific audit guide.) Unless restricted by law or regulation, the auditee shall make report copies available for public inspection.
- (2) When a program-specific audit guide is available, the auditee shall submit to the Federal clearinghouse designated by OMB the data collection form prepared in accordance with §___.320(b), as applicable to a program-specific audit, and the reporting required by the program-specific audit guide to be retained as an archival copy. Also, the auditee shall submit to the Federal awarding agency or pass-through entity the reporting required by the program-specific audit guide.
- (3) When a program-specific audit guide is not available, the reporting package for a program-specific audit shall consist of the financial statement(s) of the Federal program, a summary schedule of prior audit findings, and a corrective action plan as described in paragraph (b)(2) of this section, and the auditor's report(s) described in paragraph (b)(4) of this section. The data collection form prepared in accordance with

- §___.320(b), as applicable to a program-specific audit, and one copy of this reporting package shall be submitted to the Federal clearinghouse designated by OMB to be retained as an archival copy. Also, when the schedule of findings and questioned costs disclosed audit findings or the summary schedule of prior audit findings reported the status of any audit findings, the auditee shall submit one copy of the reporting package to the Federal clearinghouse on behalf of the Federal awarding agency, or directly to the pass-through entity in the case of a subrecipient. Instead of submitting the reporting package to the pass-through entity, when a subrecipient is not required to submit a reporting package to the pass-through entity, the subrecipient shall provide written notification to the pass-through entity, consistent with the requirements of §___.320(e)(2). A subrecipient may submit a copy of the reporting package to the pass-through entity to comply with this notification requirement.
- (d) Other sections of this part may apply. Program-specific audits are subject to §__.100 through §__.215(b), §__.220 through §__.230, §__.300 through §__.305, §__.315, §__.320(f) through §__.320(j), §__.400 through §__.405, §__.510 through §__.515, and other referenced provisions of this part unless contrary to the provisions of this section, a program-specific audit quide, or program laws and regulations.

Subpart C--Auditees § .300 Auditee responsibilities.

The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310.
- (e) Ensure that the audits required by this part are properly performed and submitted when due. When extensions to the report submission due date required by §___.320(a) are granted by the cognizant or oversight agency for audit, promptly notify the Federal clearinghouse designated by OMB and each pass-through entity providing Federal awards of the extension.
- (f) Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan in accordance with §___.315(b) and §___.315(c), respectively.

§___.305 Auditor selection.

- Auditor procurement. In procuring audit services, auditees shall follow the procurement standards prescribed by the Grants Management Common Rule (hereinafter referred to as the "A-102 Common Rule") published March 11, 1988 and amended April 19, 1995 [insert appropriate CFR citation], Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations, or the FAR (48 CFR part 42), as applicable (OMB Circulars are available from the Office of Administration, Publications Office, room 2200, New Executive Office Building, Washington, DC 20503). Whenever possible, auditees shall make positive efforts to utilize small businesses, minorityowned firms, and women's business enterprises, in procuring audit services as stated in the A-102 Common Rule, OMB Circular A-110, or the FAR (48 CFR part 42), as applicable. In requesting proposals for audit services, the objectives and scope of the audit should be made clear. Factors to be considered in evaluating each proposal for audit services include the responsiveness to the request for proposal, relevant experience, availability of staff with professional qualifications and technical abilities, the results of external quality control reviews, and price.
- (b) Restriction on auditor preparing indirect cost proposals. An auditor who prepares the indirect cost proposal or cost allocation plan may not also be selected to perform the audit required by this part when the indirect costs recovered by the auditee during the prior year exceeded \$1 million. This restriction applies to the base year used in the preparation of the indirect cost proposal or cost allocation plan and any subsequent years in which the resulting indirect cost agreement or cost allocation plan is used to recover costs. To minimize any disruption in existing contracts for audit services, this paragraph applies to audits of fiscal years beginning after June 30, 1998.
- (c) <u>Use of Federal auditors</u>. Federal auditors may perform all or part of the work required under this part if they comply fully with the requirements of this part.

§ .310 Financial statements.

- (a) <u>Financial statements</u>. The auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited. The financial statements shall be for the same organizational unit and fiscal year that is chosen to meet the requirements of this part. However, organization-wide financial statements may also include departments, agencies, and other organizational units that have separate audits in accordance with §___.500(a) and prepare separate financial statements.
- (b) <u>Schedule of expenditures of Federal awards</u>. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:
- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.

- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

§ .315 Audit findings follow-up.

- (a) <u>General</u>. The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The auditee shall also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan shall include the reference numbers the auditor assigns to audit findings under $\S_{__.510}(c)$. Since the summary schedule may include audit findings from multiple years, it shall include the fiscal year in which the finding initially occurred.
- (b) <u>Summary schedule of prior audit findings</u>. The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit's schedule of findings and questioned costs relative to Federal awards. The summary schedule shall also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected in accordance with paragraph (b)(1) of this section, or no longer valid or not warranting further action in accordance with paragraph (b)(4) of this section.
- (1) When audit findings were fully corrected, the summary schedule need only list the audit findings and state that corrective action was taken.
- (2) When audit findings were not corrected or were only partially corrected, the summary schedule shall describe the planned corrective action as well as any partial corrective action taken.
- (3) When corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the Federal agency's or pass-through entity's management decision, the summary schedule shall provide an explanation.
- (4) When the auditee believes the audit findings are no longer valid or do not warrant further action, the reasons for this position shall be described in the summary schedule. A valid reason for considering an audit finding as not warranting further action is that all of the following have occurred:
 - (i) Two years have passed since the audit report in which

the finding occurred was submitted to the Federal clearinghouse;

- (ii) The Federal agency or pass-through entity is not currently following up with the auditee on the audit finding; and
 - (iii) A management decision was not issued.
- (c) <u>Corrective action plan</u>. At the completion of the audit, the auditee shall prepare a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. If the auditee does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include an explanation and specific reasons.

§ .320 Report submission.

- (a) <u>General</u>. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. (However, for fiscal years beginning on or before June 30, 1998, the audit shall be completed and the data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or 13 months after the end of the audit period.) Unless restricted by law or regulation, the auditee shall make copies available for public inspection.
- (b) <u>Data Collection</u>. (1) The auditee shall submit a data collection form which states whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. The form shall be approved by OMB, available from the Federal clearinghouse designated by OMB, and include data elements similar to those presented in this paragraph. A senior level representative of the auditee (e.g., State controller, director of finance, chief executive officer, or chief financial officer) shall sign a statement to be included as part of the form certifying that: the auditee complied with the requirements of this part, the form was prepared in accordance with this part (and the instructions accompanying the form), and the information included in the form, in its entirety, are accurate and complete.
- $\ensuremath{\text{(2)}}$ The data collection form shall include the following data elements:
- (i) The type of report the auditor issued on the financial statements of the auditee (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
- (ii) Where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses.
- (iii) A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee.
- (iv) Where applicable, a statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses.
- (v) The type of report the auditor issued on compliance for major

- programs (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
- A list of the Federal awarding agencies which will receive a copy of (vi) the reporting package pursuant to § .320(d)(2) of OMB Circular A-133.
- A yes or no statement as to whether the auditee qualified as a low-(vii) risk auditee under § .530 of OMB Circular A-133.
- (viii) The dollar threshold used to distinguish between Type A and Type B programs as defined in § .520(b) of OMB Circular A-133.
- (ix) The <u>Catalog of Federal Domestic Assistance</u> (CFDA) number for each Federal program, as applicable.
- (x)The name of each Federal program and identification of each major program. Individual programs within a cluster of programs should be listed in the same level of detail as they are listed in the schedule of expenditures of Federal awards.
- The amount of expenditures in the schedule of expenditures of Federal (xi) awards associated with each Federal program.
- For each Federal program, a yes or no statement as to whether there (xii) are audit findings in each of the following types of compliance requirements and the total amount of any questioned costs:
 - (A) Activities allowed or unallowed.
 - (B) Allowable costs/cost principles.
 - (C) Cash management.
 - (D) Davis-Bacon Act.
 - (E) Eligibility.
 - (F) Equipment and real property management.
 - (G)
 - Matching, level of effort, earmarking. Period of availability of Federal funds. (H)
 - (I) Procurement and suspension and debarment.
 - (J) Program income.
 - (K) Real property acquisition and relocation assistance.
 - (L) Reporting.
 - Subrecipient monitoring. (M)
 - (N) Special tests and provisions.
- (xiii) Auditee Name, Employer Identification Number(s), Name and Title of Certifying Official, Telephone Number, Signature, and Date.
- (xiv) Auditor Name, Name and Title of Contact Person, Auditor Address, Auditor Telephone Number, Signature, and Date.
- (xv) Whether the auditee has either a cognizant or oversight agency for audit.
- (xvi) The name of the cognizant or oversight agency for audit determined in accordance with §___.400(a) and §___.400(b), respectively.
- Using the information included in the reporting package described in paragraph (c) of this section, the auditor shall complete the applicable sections of the form. The auditor shall sign a statement to be included as part of the data collection form that indicates, at a minimum, the source of the information included in the form, the auditor's responsibility for the information, that the form is not a substitute for the reporting package described in paragraph (c) of this section, and that the content of

the form is limited to the data elements prescribed by OMB.

- (c) Reporting package. The reporting package shall include the:
- (1) Financial statements and schedule of expenditures of Federal awards discussed in §___.310(a) and §___.310(b), respectively;
- (2) Summary schedule of prior audit findings discussed in §___.315(b);
 - (3) Auditor's report(s) discussed in § .505; and
 - (4) Corrective action plan discussed in §___.315(c).
- (d) <u>Submission to clearinghouse</u>. All auditees shall submit to the Federal clearinghouse designated by OMB the data collection form described in paragraph (b) of this section and one copy of the reporting package described in paragraph (c) of this section for:
- $\hspace{1.5cm} \hbox{(1)} \hspace{0.5cm} \hbox{The Federal clearinghouse to retain as an archival copy;} \\$
- (2) Each Federal awarding agency when the schedule of findings and questioned costs disclosed audit findings relating to Federal awards that the Federal awarding agency provided directly or the summary schedule of prior audit findings reported the status of any audit findings relating to Federal awards that the Federal awarding agency provided directly.
- (e) Additional submission by subrecipients. (1) In addition to the requirements discussed in paragraph (d) of this section, auditees that are also subrecipients shall submit to each pass-through entity one copy of the reporting package described in paragraph (c) of this section for each pass-through entity when the schedule of findings and questioned costs disclosed audit findings relating to Federal awards that the pass-through entity provided or the summary schedule of prior audit findings reported the status of any audit findings relating to Federal awards that the pass-through entity provided.
- (2) Instead of submitting the reporting package to a pass-through entity, when a subrecipient is not required to submit a reporting package to a pass-through entity pursuant to paragraph (e)(1) of this section, the subrecipient shall provide written notification to the pass-through entity that: an audit of the subrecipient was conducted in accordance with this part (including the period covered by the audit and the name, amount, and CFDA number of the Federal award(s) provided by the pass-through entity); the schedule of findings and questioned costs disclosed no audit findings relating to the Federal award(s) that the pass-through entity provided; and, the summary schedule of prior audit findings did not report on the status of any audit findings relating to the Federal award(s) that the pass-through entity provided. A subrecipient may submit a copy of the reporting package described in paragraph (c) of this section to a pass-through entity to comply with this notification requirement.
- (f) <u>Requests for report copies</u>. In response to requests by a Federal agency or pass-through entity, auditees shall submit the appropriate copies of the reporting package described in paragraph (c) of this section and, if requested, a copy of any management letters issued by the auditor.
- (g) <u>Report retention requirements</u>. Auditees shall keep one copy of the data collection form described in paragraph (b) of this section and one copy of the reporting package described in paragraph (c) of this section on file for three years from the date of submission to the Federal clearinghouse

designated by OMB. Pass-through entities shall keep subrecipients' submissions on file for three years from date of receipt.

- (h) <u>Clearinghouse responsibilities</u>. The Federal clearinghouse designated by OMB shall distribute the reporting packages received in accordance with paragraph (d)(2) of this section and §___.235(c)(3) to applicable Federal awarding agencies, maintain a data base of completed audits, provide appropriate information to Federal agencies, and follow up with known auditees which have not submitted the required data collection forms and reporting packages.
- (i) <u>Clearinghouse address</u>. The address of the Federal clearinghouse currently designated by OMB is Federal Audit Clearinghouse, Bureau of the Census, 1201 E. 10th Street, Jeffersonville, IN 47132.
- (j) <u>Electronic filing</u>. Nothing in this part shall preclude electronic submissions to the Federal clearinghouse in such manner as may be approved by OMB. With OMB approval, the Federal clearinghouse may pilot test methods of electronic submissions.

Subpart D--Federal Agencies and Pass-Through Entities §___.400 Responsibilities.

(a) <u>Cognizant agency for audit responsibilities</u>. Recipients expending more than \$25 million (\$50 million for fiscal years ending after December 31, 2003) a year in Federal awards shall have a cognizant agency for audit. The designated cognizant agency for audit shall be the Federal awarding agency that provides the predominant amount of direct funding to a recipient unless OMB makes a specific cognizant agency for audit assignment.

Following is effective for fiscal years ending on or before December 31, 2003: To provide for continuity of cognizance, the determination of the predominant amount of direct funding shall be based upon direct Federal awards expended in the recipient's fiscal years ending in 1995, 2000, 2005, and every fifth year thereafter. For example, audit cognizance for periods ending in 1997 through 2000 will be determined based on Federal awards expended in 1995. (However, for States and local governments that expend more than \$25 million a year in Federal awards and have previously assigned cognizant agencies for audit, the requirements of this paragraph are not effective until fiscal years beginning after June 30, 2000.)

Following is effective for fiscal years ending after December 31, 2003: The determination of the predominant amount of direct funding shall be based upon direct Federal awards expended in the recipient's fiscal years ending in 2004, 2009, 2014, and every fifth year thereafter. For example, audit cognizance for periods ending in 2006 through 2010 will be determined based on Federal awards expended in 2004. (However, for 2001 through 2005, the cognizant agency for audit is determined based on the predominant amount of direct Federal awards expended in the recipient's fiscal year ending in 2000).

Notwithstanding the manner in which audit cognizance is determined, a Federal awarding agency with cognizance for an auditee may reassign cognizance to another Federal awarding agency which provides substantial direct funding and agrees to be the cognizant agency for audit. Within 30 days after any reassignment, both the old and the new cognizant agency for audit shall notify the auditee, and, if known, the auditor of the reassignment. The cognizant agency for audit shall:

- (1) Provide technical audit advice and liaison to auditees and auditors.
 - (2) Consider auditee requests for extensions to the report

submission due date required by §___.320(a). The cognizant agency for audit may grant extensions for good cause.

- (3) Obtain or conduct quality control reviews of selected audits made by non-Federal auditors, and provide the results, when appropriate, to other interested organizations.
- (4) Promptly inform other affected Federal agencies and appropriate Federal law enforcement officials of any direct reporting by the auditee or its auditor of irregularities or illegal acts, as required by GAGAS or laws and regulations.
- (5) Advise the auditor and, where appropriate, the auditee of any deficiencies found in the audits when the deficiencies require corrective action by the auditor. When advised of deficiencies, the auditee shall work with the auditor to take corrective action. If corrective action is not taken, the cognizant agency for audit shall notify the auditor, the auditee, and applicable Federal awarding agencies and pass-through entities of the facts and make recommendations for follow-up action. Major inadequacies or repetitive substandard performance by auditors shall be referred to appropriate State licensing agencies and professional bodies for disciplinary action.
- (6) Coordinate, to the extent practical, audits or reviews made by or for Federal agencies that are in addition to the audits made pursuant to this part, so that the additional audits or reviews build upon audits performed in accordance with this part.
- (7) Coordinate a management decision for audit findings that affect the Federal programs of more than one agency.
- (8) Coordinate the audit work and reporting responsibilities among auditors to achieve the most cost-effective audit.
- (9) For biennial audits permitted under \S ___.220, consider auditee requests to qualify as a low-risk auditee under \S ___.530(a).
- (b) Oversight agency for audit responsibilities. An auditee which does not have a designated cognizant agency for audit will be under the general oversight of the Federal agency determined in accordance with § $_$.105. The oversight agency for audit:
- $\mbox{\ensuremath{(1)}}$ Shall provide technical advice to auditees and auditors as requested.
- (2) May assume all or some of the responsibilities normally performed by a cognizant agency for audit.
- (c) <u>Federal awarding agency responsibilities</u>. The Federal awarding agency shall perform the following for the Federal awards it makes:
- (1) Identify Federal awards made by informing each recipient of the CFDA title and number, award name and number, award year, and if the award is for R&D. When some of this information is not available, the Federal agency shall provide information necessary to clearly describe the Federal award.
- $\,$ (2) Advise recipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements.
 - (3) Ensure that audits are completed and reports are received

in a timely manner and in accordance with the requirements of this part.

- (4) Provide technical advice and counsel to auditees and auditors as requested.
- (5) Issue a management decision on audit findings within six months after receipt of the audit report and ensure that the recipient takes appropriate and timely corrective action.
- (6) Assign a person responsible for providing annual updates of the compliance supplement to OMB.
- (d) <u>Pass-through entity responsibilities</u>. A pass-through entity shall perform the following for the Federal awards it makes:
- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
- (7) Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

§ .405 Management decision.

- (a) <u>General</u>. The management decision shall clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given. Prior to issuing the management decision, the Federal agency or pass-through entity may request additional information or documentation from the auditee, including a request for auditor assurance related to the documentation, as a way of mitigating disallowed costs. The management decision should describe any appeal process available to the auditee.
- (b) <u>Federal agency</u>. As provided in §___.400(a)(7), the cognizant agency for audit shall be responsible for coordinating a management decision for audit findings that affect the programs of more than one Federal agency.

- As provided in \S __.400(c)(5), a Federal awarding agency is responsible for issuing a management decision for findings that relate to Federal awards it makes to recipients. Alternate arrangements may be made on a case-by-case basis by agreement among the Federal agencies concerned.
- (c) <u>Pass-through entity</u>. As provided in §___.400(d)(5), the pass-through entity shall be responsible for making the management decision for audit findings that relate to Federal awards it makes to subrecipients.
- (d) <u>Time requirements</u>. The entity responsible for making the management decision shall do so within six months of receipt of the audit report. Corrective action should be initiated within six months after receipt of the audit report and proceed as rapidly as possible.
- (e) Reference numbers. Management decisions shall include the reference numbers the auditor assigned to each audit finding in accordance with §___.510(c).

Subpart E--Auditors §___.500 Scope of audit.

- (a) <u>General</u>. The audit shall be conducted in accordance with GAGAS. The audit shall cover the entire operations of the auditee; or, at the option of the auditee, such audit shall include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered Federal awards during such fiscal year, provided that each such audit shall encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and other organizational unit, which shall be considered to be a non-Federal entity. The financial statements and schedule of expenditures of Federal awards shall be for the same fiscal year.
- (b) <u>Financial statements</u>. The auditor shall determine whether the financial statements of the auditee are presented fairly in all material respects in conformity with generally accepted accounting principles. The auditor shall also determine whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the auditee's financial statements taken as a whole.
- (c) <u>Internal control</u>. (1) In addition to the requirements of GAGAS, the auditor shall perform procedures to obtain an understanding of internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs.
- (2) Except as provided in paragraph (c)(3) of this section, the auditor shall:
- (i) Plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program; and
- (ii) Perform testing of internal control as planned in paragraph (c)(2)(i) of this section.
- (3) When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the planning and performing of testing described in paragraph (c)(2) of this section are not required for those compliance requirements. However, the auditor shall report a reportable condition (including whether any such condition is a material weakness) in accordance with §__.510, assess the related control risk at the maximum, and consider whether additional compliance tests are required because of ineffective

internal control.

- (d) <u>Compliance</u>. (1) In addition to the requirements of GAGAS, the auditor shall determine whether the auditee has complied with laws, regulations, and the provisions of contracts or grant agreements that may have a direct and material effect on each of its major programs.
- (2) The principal compliance requirements applicable to most Federal programs and the compliance requirements of the largest Federal programs are included in the compliance supplement.
- programs contained in the compliance supplement, an audit of these compliance requirements will meet the requirements of this part. Where there have been changes to the compliance requirements and the changes are not reflected in the compliance supplement, the auditor shall determine the current compliance requirements and modify the audit procedures accordingly. For those Federal programs not covered in the compliance supplement, the auditor should use the types of compliance requirements contained in the compliance supplement as guidance for identifying the types of compliance requirements to test, and determine the requirements governing the Federal program by reviewing the provisions of contracts and grant agreements and the laws and regulations referred to in such contracts and grant agreements.
- (4) The compliance testing shall include tests of transactions and such other auditing procedures necessary to provide the auditor sufficient evidence to support an opinion on compliance.
- (e) <u>Audit follow-up</u>. The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with \S ____315(b), and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.
- (f) <u>Data Collection Form</u>. As required in \S ____.320(b)(3), the auditor shall complete and sign specified sections of the data collection form.

§ .505 Audit reporting.

The auditor's report(s) may be in the form of either combined or separate reports and may be organized differently from the manner presented in this section. The auditor's report(s) shall state that the audit was conducted in accordance with this part and include the following:

- (a) An opinion (or disclaimer of opinion) as to whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles and an opinion (or disclaimer of opinion) as to whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole.
- (b) A report on internal control related to the financial statements and major programs. This report shall describe the scope of testing of internal control and the results of the tests, and, where applicable, refer to the separate schedule of findings and questioned costs described in paragraph (d) of this section.
- (c) A report on compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a

material effect on the financial statements. This report shall also include an opinion (or disclaimer of opinion) as to whether the auditee complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program, and, where applicable, refer to the separate schedule of findings and questioned costs described in paragraph (d) of this section.

- (d) A schedule of findings and questioned costs which shall include the following three components:
 - (1) A summary of the auditor's results which shall include:
- (i) The type of report the auditor issued on the financial statements of the auditee (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
- (ii) Where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses;
- (iii) A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee;
- (iv) Where applicable, a statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses;
- (v) The type of report the auditor issued on compliance for major programs (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion);
- (vi) A statement as to whether the audit disclosed any audit findings which the auditor is required to report under \S ___.510(a);
 - (vii) An identification of major programs;
- (viii) The dollar threshold used to distinguish between Type A and Type B programs, as described in § .520(b); and
- (ix) A statement as to whether the auditee qualified as a low-risk auditee under § .530.
- (2) Findings relating to the financial statements which are required to be reported in accordance with GAGAS.
- (3) Findings and questioned costs for Federal awards which shall include audit findings as defined in § .510(a).
- (i) Audit findings (e.g., internal control findings, compliance findings, questioned costs, or fraud) which relate to the same issue should be presented as a single audit finding. Where practical, audit findings should be organized by Federal agency or pass-through entity.
- (ii) Audit findings which relate to both the financial statements and Federal awards, as reported under paragraphs (d)(2) and (d)(3) of this section, respectively, should be reported in both sections of the schedule. However, the reporting in one section of the schedule may be in summary form with a reference to a detailed reporting in the other section of the schedule.

§ .510 Audit findings.

- (a) <u>Audit findings reported</u>. The auditor shall report the following as audit findings in a schedule of findings and questioned costs:
- (1) Reportable conditions in internal control over major programs. The auditor's determination of whether a deficiency in internal control is a reportable condition for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the compliance supplement. The auditor shall identify reportable conditions which are individually or cumulatively material weaknesses.
- (2) Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program. The auditor's determination of whether a noncompliance with the provisions of laws, regulations, contracts, or grant agreements is material for the purpose of reporting an audit finding is in relation to a type of compliance requirement for a major program or an audit objective identified in the compliance supplement.
- (3) Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program. Known questioned costs are those specifically identified by the auditor. In evaluating the effect of questioned costs on the opinion on compliance, the auditor considers the best estimate of total costs questioned (likely questioned costs), not just the questioned costs specifically identified (known questioned costs). The auditor shall also report known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program. In reporting questioned costs, the auditor shall include information to provide proper perspective for judging the prevalence and consequences of the questioned costs.
- (4) Known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program. Except for audit follow-up, the auditor is not required under this part to perform audit procedures for such a Federal program; therefore, the auditor will normally not find questioned costs for a program which is not audited as a major program. However, if the auditor does become aware of questioned costs for a Federal program which is not audited as a major program (e.g., as part of audit follow-up or other audit procedures) and the known questioned costs are greater than \$10,000, then the auditor shall report this as an audit finding.
- (5) The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards.
- (6) Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards. This paragraph does not require the auditor to make an additional reporting when the auditor confirms that the fraud was reported outside of the auditor's reports under the direct reporting requirements of GAGAS.
- (7) Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee in accordance with §___.315(b) materially misrepresents the status of any prior audit finding.
- (b) <u>Audit finding detail</u>. Audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for Federal agencies and pass-through entities to arrive at a management decision. The following specific information shall be

included, as applicable, in audit findings:

- (1) Federal program and specific Federal award identification including the CFDA title and number, Federal award number and year, name of Federal agency, and name of the applicable pass-through entity. When information, such as the CFDA title and number or Federal award number, is not available, the auditor shall provide the best information available to describe the Federal award.
- (2) The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation.
- (3) The condition found, including facts that support the deficiency identified in the audit finding.
- $\ensuremath{\mbox{(4)}}$ Identification of questioned costs and how they were computed.
- (5) Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the universe and the number of cases examined and be quantified in terms of dollar value.
- (6) The possible asserted effect to provide sufficient information to the auditee and Federal agency, or pass-through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action.
- (7) Recommendations to prevent future occurrences of the deficiency identified in the audit finding.
- (8) Views of responsible officials of the auditee when there is disagreement with the audit findings, to the extent practical.
- (c) <u>Reference numbers</u>. Each audit finding in the schedule of findings and questioned costs shall include a reference number to allow for easy referencing of the audit findings during follow-up.

§ .515 Audit working papers.

- (a) Retention of working papers. The auditor shall retain working papers and reports for a minimum of three years after the date of issuance of the auditor's report(s) to the auditee, unless the auditor is notified in writing by the cognizant agency for audit, oversight agency for audit, or pass-through entity to extend the retention period. When the auditor is aware that the Federal awarding agency, pass-through entity, or auditee is contesting an audit finding, the auditor shall contact the parties contesting the audit finding for guidance prior to destruction of the working papers and reports.
- (b) Access to working papers. Audit working papers shall be made available upon request to the cognizant or oversight agency for audit or its designee, a Federal agency providing direct or indirect funding, or GAO at the completion of the audit, as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this part. Access to working papers includes the right of Federal agencies to obtain copies of working papers, as is reasonable and necessary.

§ .520 Major program determination.

- (a) <u>General</u>. The auditor shall use a risk-based approach to determine which Federal programs are major programs. This risk-based approach shall include consideration of: Current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program. The process in paragraphs (b) through (i) of this section shall be followed.
- (b) <u>Step 1</u>. (1) The auditor shall identify the larger Federal programs, which shall be labeled Type A programs. Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the larger of:
- (i) \$300,000 or three percent (.03) of total Federal awards expended in the case of an auditee for which total Federal awards expended equal or exceed \$300,000 but are less than or equal to \$100 million.
- (ii) \$3\$ million or three-tenths of one percent (.003) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$100 million but are less than or equal to \$10 billion.
- (iii) \$30 million or 15 hundredths of one percent (.0015) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$10 billion.
- (2) Federal programs not labeled Type A under paragraph (b) (1) of this section shall be labeled Type B programs.
- (3) The inclusion of large loan and loan guarantees (loans) should not result in the exclusion of other programs as Type A programs. When a Federal program providing loans significantly affects the number or size of Type A programs, the auditor shall consider this Federal program as a Type A program and exclude its values in determining other Type A programs.
- (4) For biennial audits permitted under §___.220, the determination of Type A and Type B programs shall be based upon the Federal awards expended during the two-year period.
- (c) Step 2. (1) The auditor shall identify Type A programs which are low-risk. For a Type A program to be considered low-risk, it shall have been audited as a major program in at least one of the two most recent audit periods (in the most recent audit period in the case of a biennial audit), and, in the most recent audit period, it shall have had no audit findings under §__.510(a). However, the auditor may use judgment and consider that audit findings from questioned costs under §__.510(a)(3) and §__.510(a)(4), fraud under §__.510(a)(6), and audit follow-up for the summary schedule of prior audit findings under §__.510(a)(7) do not preclude the Type A program from being low-risk. The auditor shall consider: the criteria in §__.525(c), §_.525(d)(1), §_.525(d)(2), and §_.525(d)(3); the results of audit follow-up; whether any changes in personnel or systems affecting a Type A program have significantly increased risk; and apply professional judgment in determining whether a Type A program is low-risk.
- (2) Notwithstanding paragraph (c)(1) of this section, OMB may approve a Federal awarding agency's request that a Type A program at certain recipients may not be considered low-risk. For example, it may be necessary for a large Type A program to be audited as major each year at particular recipients to allow the Federal agency to comply with the Government Management Reform Act of 1994 (31 U.S.C. 3515). The Federal agency shall notify the recipient and, if known, the auditor at least 180 days prior to the

end of the fiscal year to be audited of OMB's approval.

- (d) Step 3. (1) The auditor shall identify Type B programs which are high-risk using professional judgment and the criteria in §__.525. However, should the auditor select Option 2 under Step 4 (paragraph (e)(2)(i)(B) of this section), the auditor is not required to identify more high-risk Type B programs than the number of low-risk Type A programs. Except for known reportable conditions in internal control or compliance problems as discussed in §__.525(b)(1), §__.525(b)(2), and §__.525(c)(1), a single criteria in §__.525 would seldom cause a Type B program to be considered high-risk.
- (2) The auditor is not expected to perform risk assessments on relatively small Federal programs. Therefore, the auditor is only required to perform risk assessments on Type B programs that exceed the larger of:
- (i) \$100,000 or three-tenths of one percent (.003) of total Federal awards expended when the auditee has less than or equal to \$100 million in total Federal awards expended.
- (ii) \$300,000 or three-hundredths of one percent (.0003) of total Federal awards expended when the auditee has more than \$100 million in total Federal awards expended.
- (e) $\underline{\text{Step 4}}$. At a minimum, the auditor shall audit all of the following as major programs:
- (1) All Type A programs, except the auditor may exclude any Type A programs identified as low-risk under Step 2 (paragraph (c) (1) of this section).
- (2) (i) High-risk Type B programs as identified under either of the following two options:
- (A) Option 1. At least one half of the Type B programs identified as high-risk under Step 3 (paragraph (d) of this section), except this paragraph (e) (i) (i) (A) does not require the auditor to audit more high-risk Type B programs than the number of low-risk Type A programs identified as low-risk under Step 2.
- (B) $\underline{\text{Option 2}}$. One high-risk Type B program for each Type A program identified as low-risk under Step 2.
- (ii) When identifying which high-risk Type B programs to audit as major under either Option 1 or 2 in paragraph (e)(2)(i)(A) or (B), the auditor is encouraged to use an approach which provides an opportunity for different high-risk Type B programs to be audited as major over a period of time.
- (3) Such additional programs as may be necessary to comply with the percentage of coverage rule discussed in paragraph (f) of this section. This paragraph (e)(3) may require the auditor to audit more programs as major than the number of Type A programs.
- (f) <u>Percentage of coverage rule</u>. The auditor shall audit as major programs Federal programs with Federal awards expended that, in the aggregate, encompass at least 50 percent of total Federal awards expended. If the auditee meets the criteria in §___.530 for a low-risk auditee, the auditor need only audit as major programs Federal programs with Federal awards expended that, in the aggregate, encompass at least 25 percent of total Federal awards expended.
 - (g) <u>Documentation of risk</u>. The auditor shall document in the working

papers the risk analysis process used in determining major programs.

- (h) <u>Auditor's judgment</u>. When the major program determination was performed and documented in accordance with this part, the auditor's judgment in applying the risk-based approach to determine major programs shall be presumed correct. Challenges by Federal agencies and pass-through entities shall only be for clearly improper use of the guidance in this part. However, Federal agencies and pass-through entities may provide auditors guidance about the risk of a particular Federal program and the auditor shall consider this quidance in determining major programs in audits not yet completed.
- (i) <u>Deviation from use of risk criteria</u>. For first-year audits, the auditor may elect to determine major programs as all Type A programs plus any Type B programs as necessary to meet the percentage of coverage rule discussed in paragraph (f) of this section. Under this option, the auditor would not be required to perform the procedures discussed in paragraphs (c), (d), and (e) of this section.
- (1) A first-year audit is the first year the entity is audited under this part or the first year of a change of auditors.
- (2) To ensure that a frequent change of auditors would not preclude audit of high-risk Type B programs, this election for first-year audits may not be used by an auditee more than once in every three years.

§ .525 Criteria for Federal program risk.

- (a) <u>General</u>. The auditor's determination should be based on an overall evaluation of the risk of noncompliance occurring which could be material to the Federal program. The auditor shall use auditor judgment and consider criteria, such as described in paragraphs (b), (c), and (d) of this section, to identify risk in Federal programs. Also, as part of the risk analysis, the auditor may wish to discuss a particular Federal program with auditee management and the Federal agency or pass-through entity.
- (b) <u>Current and prior audit experience</u>. (1) Weaknesses in internal control over Federal programs would indicate higher risk. Consideration should be given to the control environment over Federal programs and such factors as the expectation of management's adherence to applicable laws and regulations and the provisions of contracts and grant agreements and the competence and experience of personnel who administer the Federal programs.
- (i) A Federal program administered under multiple internal control structures may have higher risk. When assessing risk in a large single audit, the auditor shall consider whether weaknesses are isolated in a single operating unit (e.g., one college campus) or pervasive throughout the entity.
- (ii) When significant parts of a Federal program are passed through to subrecipients, a weak system for monitoring subrecipients would indicate higher risk.
- (iii) The extent to which computer processing is used to administer Federal programs, as well as the complexity of that processing, should be considered by the auditor in assessing risk. New and recently modified computer systems may also indicate risk.
- (2) Prior audit findings would indicate higher risk, particularly when the situations identified in the audit findings could have a significant impact on a Federal program or have not been corrected.
 - (3) Federal programs not recently audited as major programs

may be of higher risk than Federal programs recently audited as major programs without audit findings.

- (c) <u>Oversight exercised by Federal agencies and pass-through entities</u>. (1) Oversight exercised by Federal agencies or pass-through entities could indicate risk. For example, recent monitoring or other reviews performed by an oversight entity which disclosed no significant problems would indicate lower risk. However, monitoring which disclosed significant problems would indicate higher risk.
- (2) Federal agencies, with the concurrence of OMB, may identify Federal programs which are higher risk. OMB plans to provide this identification in the compliance supplement.
- (d) Inherent risk of the Federal program. (1) The nature of a Federal program may indicate risk. Consideration should be given to the complexity of the program and the extent to which the Federal program contracts for goods and services. For example, Federal programs that disburse funds through third party contracts or have eligibility criteria may be of higher risk. Federal programs primarily involving staff payroll costs may have a high-risk for time and effort reporting, but otherwise be at low-risk.
- (2) The phase of a Federal program in its life cycle at the Federal agency may indicate risk. For example, a new Federal program with new or interim regulations may have higher risk than an established program with time-tested regulations. Also, significant changes in Federal programs, laws, regulations, or the provisions of contracts or grant agreements may increase risk.
- (3) The phase of a Federal program in its life cycle at the auditee may indicate risk. For example, during the first and last years that an auditee participates in a Federal program, the risk may be higher due to start-up or closeout of program activities and staff.
- (4) Type B programs with larger Federal awards expended would be of higher risk than programs with substantially smaller Federal awards expended.

§ .530 Criteria for a low-risk auditee.

An auditee which meets all of the following conditions for each of the preceding two years (or, in the case of biennial audits, preceding two audit periods) shall qualify as a low-risk auditee and be eligible for reduced audit coverage in accordance with §___.520:

- (a) Single audits were performed on an annual basis in accordance with the provisions of this part. A non-Federal entity that has biennial audits does not qualify as a low-risk auditee, unless agreed to in advance by the cognizant or oversight agency for audit.
- (b) The auditor's opinions on the financial statements and the schedule of expenditures of Federal awards were unqualified. However, the cognizant or oversight agency for audit may judge that an opinion qualification does not affect the management of Federal awards and provide a waiver.
- (c) There were no deficiencies in internal control which were identified as material weaknesses under the requirements of GAGAS. However, the cognizant or oversight agency for audit may judge that any identified material weaknesses do not affect the management of Federal awards and provide a waiver.

- (d) None of the Federal programs had audit findings from any of the following in either of the preceding two years (or, in the case of biennial audits, preceding two audit periods) in which they were classified as Type A programs:
- (1) Internal control deficiencies which were identified as material weaknesses;
- (2) Noncompliance with the provisions of laws, regulations, contracts, or grant agreements which have a material effect on the Type A program; or
- (3) Known or likely questioned costs that exceed five percent of the total Federal awards expended for a Type A program during the year.
- Appendix A to Part __ Data Collection Form (Form SF-SAC) [insert SF-SAC after finalized]
- Appendix B to Part ___ Circular A-133 Compliance Supplement
 Note: Provisional OMB Circular A-133 Compliance Supplement is available
 from the Office of Administration, Publications Office, room 2200, New
 Executive Office Building, Washington, DC 20503.



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California Home Monday, April 30, 2007

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Fiscal Accountability Section

Contracted District Audit Manual (CDAM)

April 27, 2007

CDAM 2007 Updates

A detailed list of CDAM 2007 updates is contained in the <u>2007 CDAM</u> <u>highlights memo</u>. Substantive additions to the manual are tracked in <u>green and underlined</u>.

To avoid additional delays in posting the audit manual to this webpage, the current version lacks bookmarks (links) to the table of contents; however, next week the bookmarks will be added. If you have any questions regarding the audit manual, please contact Marty Rubio at mrubio@cccco.edu.

CDAM Files are in PDF File Format (PDF files require Adobe Acrobat Reader for viewing)

Download Complete Manual (CDAM 2007)

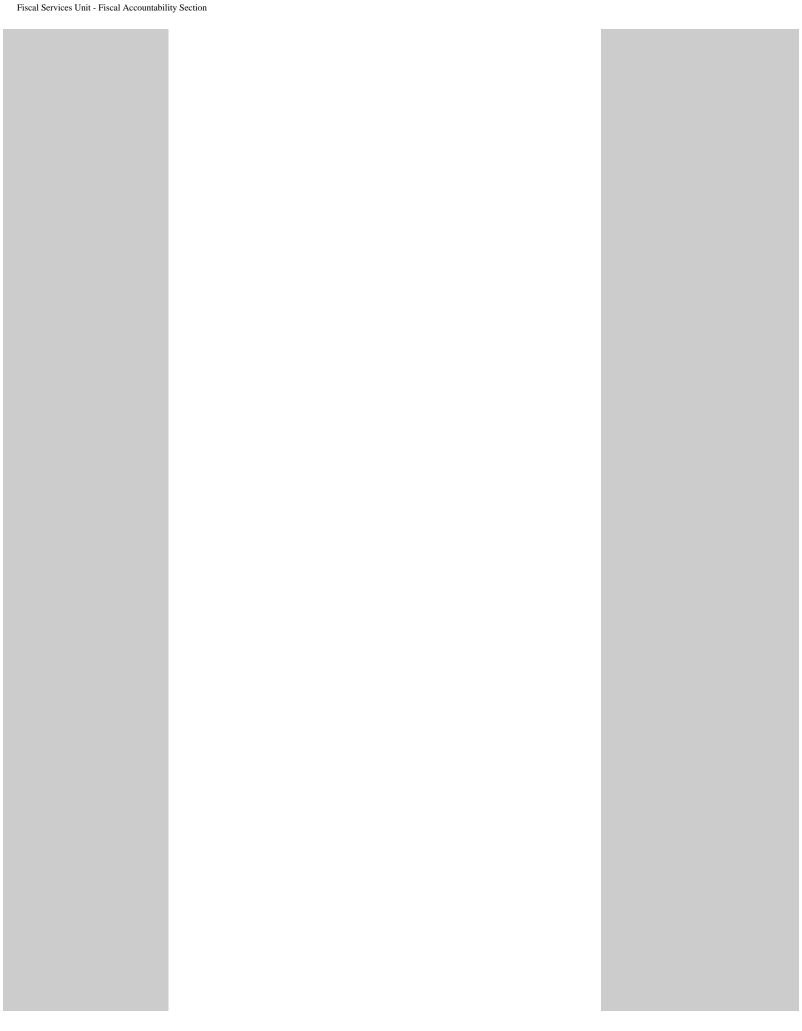
Complete Contracted District Audit Manual, April 2007 (PDF, 655KB)

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- Fiscal Accountability Home
 - Quarterly Financial Status Report (CCFS-311Q)
 - Fiscal Trend Analysis
 of the Unrestricted
 General Fund and
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Please direct comments and questions about this webpage to: Elias Regalado Phone: 916-445-1165







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Allocations Section

Student Attendance Accounting Manual

The Student Attendance Accounting Manual is a set of statutory and regulatory guidelines related to California Community College student workload measurements for apportionment purposes and residency issues.

The manual is in PDF format. Each chapter can be downloaded separately by selecting the chapter listed below.

- Preface
- Chapter 1 General Requirements
- Chapter 2 Residency
- Chapter 3 Attendance Accounting
- Chapter 4 Audit Accountability
- Chapter 5 Apprenticeship Accounting

Additional Information and Guidance:

Distance Education: Attendance Accounting

- Attributes of a Distance Education Credit Course on Weekly, Daily, or Positive Attendance Procedures
- Distance Education Guidelines (March 2004)

Residency Determination

- Residency Issues (April, 2004)
- Residency Definitions (April, 2004)

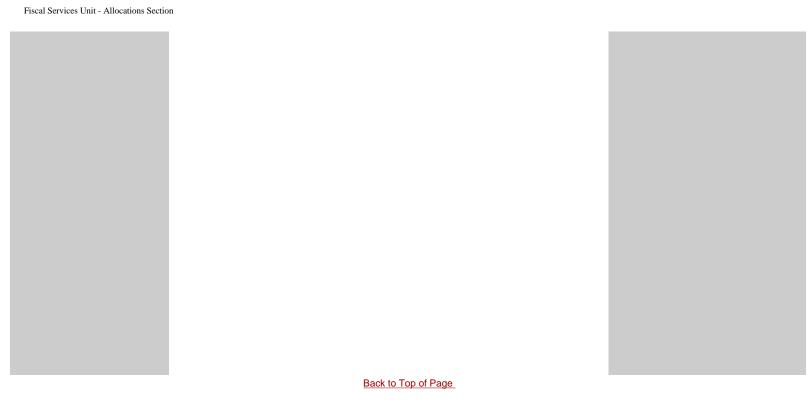
Contacts:

For Student Attendance Accounting assistance or residency related matters, please contact Elias Regalado at:

E-mail: eregalad@cccco.edu Telephone: 916 445-1165



- Allocations Home
- "Understanding Funding, Finance, and Budgeting, A Managers Handbook" (pdf)



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STUDENT FEE HANDBOOK

(A summary of advice regarding community college student fees reflecting the status of the law as of October 31, 2006)

Printer-Friendly Version



CALIFORNIA COMMUNITY COLLEGES CHANCELLOR'S OFFICE

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Appendix A: Application of Instructional Materials Regulations to Specific Instances

STUDENT FEE HANDBOOK

(A summary of advice regarding community college student fees

reflecting the status of the law as of October 1, 2006)

Chapter 1

BASIC LAW ON STUDENT FEES

Express statutory authority is required to charge any mandatory student fee; optional student fees or charges may, under certain circumstances, be charged under the authority of the "permissive code" as set forth in section 70902(a) of the Education Code.

Under current law it is well settled that a student may only be **required** to pay a fee if a **statute requires it** (such as the enrollment fee), or if a **statute specifically authorizes a district to require it** (such as the health fee). In either instance, a student cannot be required to pay a fee in the absence of express legislative authority (see the following opinions of the California Attorney General: 60 Ops.Cal.Atty.Gen. 353 (1977), and 61 Ops.Cal.Atty.Gen. 75 (1978)). The Board of Governors has underscored this policy through the adoption of a minimum condition regulation (Cal. Code Regs., tit. 5, § 51012) that provides that a district may only establish such mandatory student fees as it is expressly authorized by law to establish.

The statutes establishing many of the mandatory fees provide for exemptions which must be granted to qualifying students. Districts lack the authority to charge mandatory fees to those students who are entitled to an exemption.

If a fee must be paid as a condition of admission to a college; or as a condition of registration, enrollment, or entry into classes; or as a condition to completing the required classroom objectives of a course, or of access to critical functions of the college (such as financial aid), the fee is mandatory (required) in nature. As noted above, mandatory fees must either be required or authorized by law.

On the other hand, if the fee is for materials, services, or privileges that will assist a student, but is not otherwise required for registration, enrollment, entry into class, or completion of the required classroom objectives of a course, the fee can be classified as optional in nature. Under the authority of the permissive code, a district may charge a fee that is optional in nature, provided that the fee is not in conflict or inconsistent with existing law, and is not inconsistent with the purposes for which community college districts are established. Examples of optional fees are parking fees (which are also authorized in section 76360 of the Education Code), fees for a student body card, or a student activities fee.

The optional nature of a fee should be made clear to students. Only if students understand that the fee is truly optional can they make an informed decision about paying it. In addition, the processes by which students may claim exemptions from paying a mandatory fee or may decline to pay an optional fee should not be unduly burdensome to students.

If a fee is required for registration, enrollment, entry into class, or completion of the required classroom objectives of a course, it can be classified as a "course fee." If a fee is for materials, services, or privileges which will assist a student, but is not otherwise required for completion of the required classroom objectives of a course, it can be classified as a "service fee." Under this classification structure, specific legislative authority is always required to charge any course fee. A variety of service fees are specifically authorized by statute. In addition, service fees meeting the test of the permissive code may be charged under the authority of that provision.

Chapter 2

COURSE FEES

Specific statutory authority is required to charge any fee that is required for registration, enrollment, entry into class, or completion of the required objectives of a course. This Chapter addresses fees that are specifically authorized by statute.

2.1 Enrollment Fee: The basic enrollment fee is required pursuant to Education Code section 76300. The Board of Governors has adopted regulations to implement the enrollment fee. The regulations appear as sections 58500-58509 of title 5 of the California Code of Regulations. The Board's regulations on enrollment fee waivers are set forth at title 5, sections 58600 et seq.

Education Code section 76300 sets an enrollment fee of \$20 per unit per semester, effective for the Spring 2006-07 term. The Board of Governors has acted to clarify that the per quarter unit fee will be \$13, and that the applicable \$20 per semester unit or \$13 per quarter unit fees may also be applied to any intersession beginning on or after January 1, 2007. The existing \$26 per semester unit fee will remain in effect for Fall 2006.

Unless expressly exempted, or entitled to a waiver, all students enrolling for college credit must pay the enrollment fee. <u>Under title 5, section 58502</u>, students must be charged the enrollment fee at the time of enrollment, but section 58502 also allows districts to defer collection of the enrollment fee.

Where a district permits deferral, a student who registers in advance may be dropped from a course if he or she does not pay the required enrollment fees prior to the beginning of instruction. However, in Legal Opinion O 04-14, we held that a district which defers payment of enrollment fees may not allow a student to enroll and then involuntarily drop him or her from classes after instruction has begun for failure to pay the enrollment fees. In that instance, the unpaid fees become a debt owed the district by the student and the district may rely on the remedies available under title 5, section 59410 to encourage payment of such a debt.

Although districts may defer the payment of enrollment fees, they are not authorized to implement deferral processes that could allow students to avoid payment altogether. For example, districts are not permitted to defer the payment of enrollment fees until such time as a student requests a copy of his/her transcript because the student may never make such a request. Districts that defer the payment of fees for extended periods may expose themselves to a claim that they are not charging enrollment fees as required by statute. Districts that fail to collect the enrollment fee are subject to a potential reduction of their apportionment of up to 10%.

In Legal Opinion O 93-03, we noted that a deferral policy could "provide for collection of the enrollment fee over the course of the semester or quarter (or perhaps even the academic year) for which it is charged." Because apportionment is based on a fiscal year, and the reduction of apportionment is the remedy for failing to collect the fee, we believe that districts may, but are not required to, defer the payment of enrollment fees until the end of the fiscal year in which the debt occurred. Thus, a student who enrolled in either a fall or spring term could, at most, defer the payment of enrollment fees until the end of the corresponding fiscal year. If the student fails to fully pay the enrollment fee debt by the time set by the district, and no later than the end of the applicable fiscal year, that district can and should prohibit the student from enrolling in subsequent terms. A district that prohibits the enrollment of students who have not paid previously deferred enrollment fees would be able to demonstrate that it took reasonable steps to collect enrollment fees in accordance with section 76300.

Enrollment fees are to be waived through the Board Financial Assistance Program for students who meet income standards established under regulations of the Board of Governors, those who demonstrate financial need in accordance with the methodology set forth in federal financial aid regulations, and those who, at the time of enrollment, are

recipients of benefits under the Temporary Assistance to Needy Families Program, the Supplemental Security Income/State Supplementary Program, or a general assistance program.

Generally, students must demonstrate eligibility for these Board of Governors Enrollment Fee waivers at the time of enrollment, but the Chancellor's Office takes the position that districts have the discretion to refund enrollment fees if a student later shows that he or she actually qualified for the waiver at the time of enrollment and applied for the waiver within the academic year for which the refund is sought.

Enrollment fees must also be waived for the following:

- 1. Dependents of certain deceased or disabled veterans and California National Guard members, and recipients of the Congressional Medal of Honor or certain children of recipients of the Congressional Medal of Honor upon certification of fee waiver eligibility by the California Department of Veterans Affairs or the National Guard Adjutant General. (Ed. Code, § 66025.3, and See 4.8, below.)
- 2. The surviving spouse or the child, natural or adopted, of a deceased person who met all the requirements of Education Code section 68120 regarding active law enforcement service or active fire suppression and prevention. (Ed. Code, §§ 68120 and 76300(i).)
- 3. The dependent of any individual killed in the September 11, 2001, terrorist attacks on the World Trade Center in New York City, the Pentagon building in Washington, DC, or the crash of United Airlines Flight 93 in southwestern Pennsylvania, if he or she meets the financial need requirements for the Cal Grant A Program pursuant to Education Code section 69432.7 and either the dependent was a resident of California on September 11, 2001, or the individual killed in the attacks was a resident of California on September 11, 2001. The enrollment fee waiver continues until January 1, 2013, for a surviving spouse, and for a surviving child, the waiver continues until the person reaches the age of 30. (Ed. Code, §§ 68121 and 76300(j)-(l).)
- 4. K-12 students admitted as special full-time or part-time students pursuant to Education Code section 76001 who are enrolled for college credit in community college courses are subject to the enrollment fee. However, section 76300(f) permits the district governing board to exempt special part-time students (but not special full-time students) from paying the fee. There is nothing that would preclude a K-12 student who is subject to the enrollment fee from applying for a Board of Governors Waiver. Therefore, a district that chooses to exempt only those special part-time students who do not otherwise qualify for a Board of Governors Waiver would be acting consistent with section 76300(f). Special full-time or part-time students enrolled in college courses only for high school credit are not subject to the enrollment fee, and no waiver or exemption is necessary.
- 5. Students enrolled in specified credit contract education courses are exempted from the enrollment fee if the entire cost of the course, including administrative costs, is paid by the public or private agency, corporation, or association with which the district is contracting, and if these students are not included in the calculation of the FTES of that district.

Districts have no authority to charge more than the pro-rated per unit fee (currently \$26 or \$20 for terms or intersessions beginning on or after January 1, 2007) when they offer classes for less than a full credit. Thus, a district may not offer a class for a fractional unit and then "round up" the enrollment fee to the next nearest dollar amount if such action would exceed the maximum fee allowed for a single credit unit. For example, with the current fee of \$26 per unit, a district awarding 0.4 units for a course would have to charge a student \$10.40 and could not round the charge up to \$11.

Districts may not charge a higher enrollment fee than is authorized by the Legislature, even if students do not object. In certain high demand fields, some students might be able and willing to pay for the full cost of instruction, but districts have no authority to charge or collect fees in excess of the statutorily authorized level.

It is a fundamental rule in the community college system that districts may not charge student fees without express statutory authority. Charging students who are willing and able to pay at a rate higher than the authorized enrollment fee would violate this fundamental rule. Districts are also prohibited from contracting with third parties through contract education arrangements where the contractor pays the district for the instruction and then charges fees to members of the public who attend the classes. That is, districts cannot indirectly charge unauthorized fees when they cannot charge those fees directly. (See Legal Opinion O 06-08)

The principle of not exceeding the authorized enrollment fee also comes into play when a fee increase is anticipated but has not yet been finalized. We have held that districts may not **require** students to pay an increased enrollment fee prior to legislative action, even if it is very likely that a fee increase will be mandated. However, districts are not precluded from asking students if they wish to **voluntarily** pay the increased fee in anticipation of the fee increase. Allowing students to pay the higher fee in advance gives students the chance to avoid a supplemental payment process which

would be required if the law does change and students are then required to pay the difference in fees. Similarly, districts may not implement the pending reduction in enrollment fees for any term prior to Spring 2007 even if the district is willing to absorb the loss of revenue.

Districts are generally not authorized to charge a lower enrollment fee than is required by statute. However, because Education Code section 76300(f) allows districts to exempt special part-time students admitted pursuant to section 76001 from the enrollment fee altogether, districts may also charge a lower enrollment fee to this category of students. Districts should be careful to treat this category of students uniformly; districts should not exempt some students in this category from all or part of the fee and require the full fee from other special part-time students.

2.2. Noncredit Courses: While the law appears to authorize fees for certain noncredit courses, districts actually have very little authority in this area. Education Code section 76385 authorizes governing boards to require students to pay a fee for noncredit courses that are not eligible for state apportionment. Noncredit courses that are eligible for state apportionment are listed in section 84757 of the Education Code. Before charging a fee for a noncredit course that is not eligible for state apportionment, a district should ensure that the fee is not expressly prohibited by section 76380 of the Education Code. Section 76380 prohibits fees for adults enrolled in English and citizenship for foreigners, a class in an elementary subject, a class designated by the governing board as a class for which high school credit is granted (when the person taking the class does not have a high school diploma), and any class offered pursuant to sections 8531, 8532, 8533, and 8534 of the Education Code. Because almost all noncredit courses are offered pursuant to one of the above provisions, districts have very little authority to charge fees for noncredit courses. (See Legal Opinion E 03-26.)

Finally, it should also be noted that the fact that a district is "over cap" and is not receiving apportionment for some courses it offers does not enable the district to use the authority of section 76385 to charge students a fee for those courses.

2.3. Community Service Classes: Education Code section 78300 authorizes districts to charge students taking community service classes a fee not to exceed the cost of maintaining community service classes. Section 78300 lists areas appropriate for community service classes: civic, vocational, literacy, health, homemaking, technical and general education, including but not limited to, classes in the fields of visual and performing arts, handicraft, science, literature, nature study, nature contacting, aquatic sports and athletics. Community service classes are intended to be self-supporting, and districts are prohibited from using state General Fund money to establish and maintain such classes. However, districts may spend district general fund money to establish and maintain community services classes, or may provide instruction for remuneration by contract or with contributions or donations from individuals or groups. Districts may also use a combination of these options to fund the classes.

A number of questions have arisen about the authority of districts to convert noncredit and/or credit offerings to community service classes. This practice is not prohibited by statute; however, it is not possible to award community college credit for taking such community service classes. To allow credit to be awarded within fee-based community service classes would be inconsistent with the enrollment fee statute. On the other hand, in Legal Opinion O 94-25 we concluded that a community college district may convert a noncredit course to a community service class unless the class is a direct and integral part of the credit program (e.g., the class is required as a prerequisite for a credit course).

2.4. Fee to Audit Courses: Education Code section 76370 authorizes districts to charge students who audit courses a fee not to exceed \$15 per unit per semester. Students auditing courses are prohibited from changing their enrollment to credit status, and the attendance of auditors is not included for purposes of state apportionment.

Please note that students enrolled for credit in ten or more semester units may audit an additional three or fewer units without paying this fee. There is no authority for districts that establish this fee to allow any other type of waiver.

There is no authority for districts to create alternate options that allow students to participate in a credit course without seeking credit and then impose a fee higher than the audit fee.

2.5. Instructional Materials: Education Code section 76365 allows districts to require students to provide various types of instructional materials and enables districts to sell such materials to students who wish to purchase the required materials from the district. Generally speaking, there are strict limitations on charging a required "instructional materials fee."

Section 76365 has been implemented by regulations of the Board of Governors found in sections 59400-59408 of title 5 of the California Code of Regulations. The law provides that students can only be required to provide materials which are of continuing value to the student outside of the classroom setting. The Chancellor's Office has determined that such materials include, but are not limited to textbooks, tools, equipment, clothing, and those materials which are necessary for a student's vocational training and employment. The regulations further provide that "instructional and other materials" means tangible personal property that is owned or primarily controlled by the student. The definition of "tangible personal property" has been expanded to include electronic data that the student may access during the class and store for personal use after the class in a manner comparable to the use available during the class (see title 5, § 59402). These title 5 sections specifically apply to both credit and noncredit courses, and the requirements would apply to credit and noncredit courses offered through a contract education mechanism. (See Legal Opinion E 03-25.)

"Required instructional and other materials" are materials which the student must procure or possess as a condition of registration, enrollment, or entry into a class; or any material which is necessary to achieve the required objectives of a course.

Finally, the regulations specify that the material must not be solely or exclusively available from the district. A material will not be considered to be solely or exclusively available from the district if it is provided to the student at the district's actual cost, and there are health and safety reasons for the district being the provider, or if the district is providing the material cheaper than it is available elsewhere.

It is important to remember that these regulations only apply to materials that are required as a condition of registration, enrollment, etc. If a material is helpful to students, but is not required, then it may be sold to students under the authority of the permissive code. Material that is optional need not be tangible personal property; it need not be of continuing value outside the classroom setting; and it can be available exclusively from the district so long as it is not needed by the student to achieve the required objectives of the course or as a condition of enrollment. Questions have arisen about the propriety of charging an instructional materials fee to students who audit courses. As a practical matter, an auditing student might not participate in a course in the same way as a regular student, but may be more of an

observer. In that case, the instructional materials would not be necessary to achieve the objectives of the course.

Auditing students should be advised that they must provide the required instructional materials if they wish to participate in that portion of a course for which the materials are required. Districts should not permit auditing students to use instructional materials paid for by students who are not auditing the class such that auditing students are effectively subsidized by regular students.

Education Code sections 81457 and 81458 authorize districts to sell to students those materials necessary for the making of articles by persons in the class. The materials are to be sold to the student at the cost to the district, and the article becomes the property of the student.

Please note that districts may not charge an across-the-board or per unit instructional materials fee (see Legal Opinion O 93-12). Where specific course objectives for independent study have not been finalized at the point students register for the course, instructional materials fees generally cannot be assessed at registration because fees must be directly related to course objectives. Students may only be required to pay for instructional materials under the circumstances described above.

The following questions should be answered any time a district wishes to require students to provide materials:

- 1. What tangible personal property (material) does the student need? If a fee is charged, what does the student get for the fee?
- 2. How does this material relate to the required objectives of the course? The district should be able to identify a specific course objective that cannot be met but for the use of the materials at issue.
- 3. Does the material have continuing value outside the classroom?
- 4. Is the amount of materials the students must supply, or the amount that they receive in exchange for the fee that is charged, consistent with the amount of material necessary to meet the required objectives of the course?
- 5. If the district charges a fee rather than having students furnish the materials, why do the students have to pay a fee to the district rather than supply the materials themselves? Is the district the only source of the materials? If not, is there some health or safety reason for the district to supply the materials? If not, will the district supply the material more cheaply than the material can be obtained elsewhere AND at the District's actual cost?

Districts should periodically and systematically review the instructional materials they require students to provide, and the instructional materials fees they charge, to ensure that all the standards are met. A review of one college by the Chancellor's Office revealed fees collected from students in one small curricular area amounting to twice the college's actual costs. Such discrepancies may be attributable to fluctuating costs, but whatever the cause, they point to the need for on-going monitoring of required materials and materials fees.

Districts should carefully review the fees described in their catalogs, class schedules, and their websites to ensure that optional fees are clearly described as optional and cannot be mistaken for required charges. Students should be clearly advised when they have the option of providing their own materials or of purchasing those materials at the listed price from the district. When optional fees are not properly described, the appearance is that the district may be charging an impermissible mandatory fee.

When students have the option of providing necessary materials, districts should provide readily available information about what materials are required so that students can make an informed choice as to whether to provide their own

materials or to purchase them from the district. Districts should establish a workable mechanism to notify students of the materials they must provide to ensure that students have a real opportunity to provide the materials themselves and are not forced to pay a fee to the district merely because they did not know what materials were needed.

Districts should also review their refund policies related to instructional materials fees. Students may have already paid instructional materials fees when they find they must withdraw from a class. Unless a district refunds an amount corresponding to the tangible personal property that was not provided prior to an early withdrawal, or provides the material to the student, the appearance is that the district is retaining the fee as well as the materials for which the fee was paid.

Appendix A contains a detailed analysis of the kinds of materials that may and may not be required under the instructional materials regulations.

2.6. Nonresident Tuition: Section 76140 requires districts to charge a nonresident tuition fee in the event it chooses to admit nonresidents. The statute provides various

methods/options for computing the nonresident tuition fee.

A special option exists for districts that are in close proximity to other states. Section 76140 provides that any district that has fewer than 1500 FTES and whose boundary is within 10 miles of another state that has an interstate attendance ("reciprocity") agreement with California may exempt students from that state from paying nonresident tuition. The attendance of such students may be claimed for apportionment, but if so, they must pay a fee of \$42 per unit.

Section 76140 also provides that similarly situated districts that have more than 1,500, but less than 3,001, FTES may exempt no more than 100 FTES per year from any bordering state with which California has an interstate attendance agreement and claim the attendance of those students for state apportionment. Again, any students who are claimed for apportionment purposes must pay the \$42 per unit fee. A district may, but is not required to, allow students beyond the 100 FTES limit to benefit from the interstate attendance agreement, but in no case may the district claim the attendance of those additional students for state apportionment purposes. If a district does decide to exempt students beyond the 100 FTES limit from the payment of nonresident tuition, we believe the district may, but is not required to, charge those students the lower \$42 fee.

The position of the Chancellor's Office is that the \$42 fee specified in section 76140(k) is intended to be a fee in lieu of the enrollment fee required by section 76300. Therefore, students charged this fee should not also be required to pay the enrollment fee.

Questions have been raised about charging tuition to students enrolled in distance education courses. At this time, the law does not exempt nonresident students enrolled in distance education courses from paying nonresident tuition. Students enrolled in distance education courses are subject to the same residency determination requirements and exemptions as traditional students. If a student enrolling in a distance education course is deemed to be a nonresident, that student is subject to nonresident tuition. This conclusion is discussed in detail in Legal Opinion L 01-19.

Districts are authorized (but not required) to exempt all nonresidents who take six or fewer units. Districts are also authorized to exempt, on an individual basis, and based on demonstrated financial need, nonresidents who are both citizens and residents of foreign countries. No more than 10% of nonresident foreign students attending the district may be so exempted.

There is no authority to charge a higher nonresident tuition fee to nonresidents who are not citizens of the United States. If the proper procedures are followed and required exemptions are provided, districts may charge students who are citizens and residents of foreign countries capital outlay fees and/or application processing fees in addition to

nonresident tuition. (Please see sections 3.9 and 3.10 below.) However, higher nonresident tuition is not authorized.

[4]

Districts are required to exempt from nonresident tuition various groups of students including:

- 1. Students taking noncredit classes. (Ed. Code, § 76380.)
- 2. Apprentices taking classes of related and supplemental instruction. (Ed. Code, § 76350 and Lab. Code § 3074.)
- 3. Students who are members of the armed forces of the United States stationed in this state on active duty, except those assigned to California for educational purposes. (Ed. Code, § 68075.)
- 4. A student who is a natural or adopted child, stepchild, or spouse who is a dependent of a member of the armed forces. (Ed. Code, § 68074.) Effective January 1, 2001, the exemption for undergraduate students who otherwise qualify as military dependents became on-going rather than applying only for a one-year period as previously provided.

Districts should ensure that they are applying the continued exemption described above, and that they have revised their catalogs or other information to conform with the revised statute. Districts should ensure that their practices and materials are both consistent with the current requirements.

The language of Education Code sections 68074 and 68075 grants resident classification for affected members of the armed forces of the United States and their dependents "only for the purpose of determining the amount of tuition and fees." The Chancellor's Office considers persons who are entitled to resident classification for nonresident tuition purposes under these sections to also be eligible for BOG fee waivers. However, because the resident classification is expressly provided only for the purpose of determining the amount of tuition and fees, resident classification is not provided for other purposes, such as eligibility to serve as the student member of a board of trustees, which is reserved to California residents under Education Code section 72023.5(a).

- 5. A parent who is a federal civil service employee and his or her natural or adopted dependent children if the parent moved to California as a result of a military realignment action that involves the relocation of at least 100 employees. (Ed. Code, § 68084.)
- 6. Certain job transferees. (Ed. Code, § 76143.)

[6]

- 7. Nonresident minor students taking a class for high school credit only.
- 8. Students who attended high school in California for three or more years and graduated from a California high school or attained the equivalent thereof. In the case of a person without lawful immigration status, the student must file an affidavit with the institution of higher education stating that the student has filed an application to legalize his or her immigration status, or will file an application as soon as he or she is eligible to do so. (Ed. Code, § 68130.5.)

Nonimmigrant alien students, as defined by federal law, are not eligible for the exemption. The law was intended to enhance access to California's colleges and universities by providing a fair tuition policy for all high school students in California. Students who are exempt from the payment of nonresident tuition under

Education Code section 68130.5 may be reported for apportionment purposes by community college districts.

The Chancellor's Office has issued guidelines for the implementation of section 68130.5. The guidelines address specific issues that may arise under the section and may be useful to districts in meeting their responsibilities. The guidelines are available under the Student Services and Special Programs portion of the Chancellor's Office website at http://www.ccco.edu/divisions/ss/student_services/attachments/ ab540_guide_3rd_ed.doc. The Board of Governors adopted regulations to implement section 68130.5, and those regulations appear in title 5 as sections 54045.5 and 58003.6.

- 9. A dependent of any individual killed in the September 11, 2001, terrorist attacks on the World Trade Center in New York City, the Pentagon building in Washington, DC, or the crash of United Airlines Flight 93 in southwestern Pennsylvania, if he or she meets the financial need requirements for the Cal Grant A Program pursuant to Education Code section 69432.7 and either the dependent was a resident of California on September 11, 2001, or the individual killed in the attacks was a resident of California on September 11, 2001. If the dependent is the spouse, the exemption applies until January 1, 2013. If the dependent is a child, the exemption applies until the person reaches the age of 30. (Ed. Code, §§ 68121 and 76300(j)-(l).)
- 10. Students who audit a credit course. Nonresident tuition is charged based on the number of units of credit to be awarded for courses in which the student enrolls. A student who audits a course does not receive credit, so nonresident tuition does not apply.
- 11. For the 2005-2006 academic year, students who were enrolled in an accredited institution of higher education in Alabama, Louisiana or Mississippi and who could not continue as a direct consequence of Hurricane Katrina. (Ed. Code, § 76140(a)(3).)

Districts are also permitted, but not required, to exempt certain students from nonresident tuition. For example police academy trainees may be exempted <u>under certain circumstances</u>. (Ed. Code, § 76140.5.) In Legal Opinion L 89-36, we concluded that Education Code section 76140.5 could be construed <u>to permit all types of nonresident peace officer</u> trainees to be classified as residents. Districts should be familiar with all the available optional exemptions.

Finally, it is important to keep in mind that students who are exempted from paying nonresident tuition are still required to pay the enrollment fee unless explicitly exempted from that fee. Students charged nonresident tuition are also subject to the enrollment fee.

- **2.7. Athletic Insurance:** Prior to January 1, 1991, Education Code section 76470 authorized districts to make medical or hospital service available through group, blanket, or individual policies to students of the district participating in athletic activities under the jurisdiction of the district. The cost of the insurance could be paid from district funds, by participating students, or by their parents or guardians. Effective January 1, 1991, section 76470 was repealed. The repealing legislation, however, explicitly stated that even though section 76470 was being repealed, districts continued to have all of the authority of that provision under the general authority of the permissive code (see also Stats. 1990, ch. 1372, § 1). It is the position of the Chancellor's Office that districts continue to have legal authority to require a student to pay a fee for insurance as a condition of enrollment or participation in an athletic program.
- **2.8. Cross Enrollment:** The cross-enrollment program permits students who are enrolled at a community college, a campus of the California State University, or a campus of the University of California, under certain limited circumstances, to cross-enroll in one state-supported course per term at an institution from one of the other systems on a

space-available basis at the discretion of the appropriate campus authorities on both campuses. Such students do not

need to go through the formal admissions process and are exempt from required fees, except that, effective January 1, 2004, the host campus may charge participating students an administrative fee, not to exceed an amount sufficient for the campus to recover the full amount of the administrative costs it incurs under the chapter. (Ed. Code, § 66753.)

A student is qualified to participate in the cross-enrollment program if he or she is enrolled in any campus of the California Community Colleges, the California State University, or the University of California and meets the following requirements specified in section 66752:

- a. The student has completed at least one term at the home campus as a matriculated student and is taking at least six units at the home campus during the current term;
- b. The student has attained a grade point average of 2.0 for work completed;
- c. The student has paid appropriate tuition or fees, or both, required by the home campus for the academic term in which the student seeks to cross-enroll; and
- d. The student has the appropriate academic preparation, as determined by the host campus, consistent with the standard applied to currently enrolled students, to enroll in the course in which the student seeks to enroll.

Students who are cross-enrolled from another segment are not required to participate in the community college matriculation program, but such students can be required to meet any course prerequisites or corequisites which have been properly established for the course.

The Chancellor's Office worked with representatives from the California State University and the University of California to establish guidelines for this program. The guidelines were issued in June of 1995 by the Intersegmental Coordinating Council.

2.9. Nondistrict Physical Education Facilities: Education Code section 76395 authorizes districts to impose a fee on participating students for the additional expenses incurred when physical education courses are required to use nondistrict facilities such as bowling alleys and golf courses. Districts are not authorized to make a profit on this fee, and they should ensure that the fee charged to participating students does not exceed the charge to the district.

Chapter 3

FEES FOR SERVICES

Some fees for services are explicitly authorized by statute. Other fees for services may be charged under the authority of the permissive code so long as they are not required as a condition of registration, enrollment or completion of a course, or as a condition of access to functions of the college which are funded by the state (such as financial aid). In other words, the student can be required to pay for a service where the service is truly optional and is not tied to registration, course enrollment, or completion and where the service is not otherwise funded by the state.

In deciding whether to charge for a particular service, we recommend that districts balance the need to cover their operating costs with the reality that even modest additional fees may effectively restrict access for students who are least able to pay. The State has exempted students receiving public benefits and those who demonstrate financial need from many mandatory fees, and districts may wish to consider extending this policy to optional service fees.

Even where fees are authorized, any exemptions from the payment of the fees should be clearly communicated to the students. Similarly, optional fees should be clearly identified as optional.

A reasonable student reviewing district information or going through the registration or enrollment process should be able to understand that he or she may be eligible for an exemption from a particular fee or that a particular fee is optional. The mechanism for claiming an exemption or for declining to pay an optional fee should not be unduly burdensome to students.

3.1. Health Fee: Education Code section 76355 authorizes a community college district to charge a fee not to exceed \$10 per semester, up to \$7 for summer sessions or for intersessions of at least four weeks in length, or up to \$7 per quarter for health supervision and health services. The governing board of a district may increase the health fee by the same percentage increase as the Implicit Price Deflator for State and Local Government Purchase of Goods and Services. Whenever the calculation produces an increase of \$1 above the existing fee, the fee may be increased by \$1.

<u>Effective with the Summer Session of 2006, districts were authorized</u> to raise the maximum health fees to \$15.00 per semester and \$12.00 per summer session or intersession of at least four weeks, or \$12.00 per quarter. The fee increase was based on calculations by the Department of Finance.

Generally speaking, the fee may be charged of all students, whether or not they choose to use the health services. Districts may choose to charge or exempt noncredit students at their discretion. Part-time students may be exempted or required to pay a portion of the full fee. Section 76355 provides that if a district requires a fee, "the governing board of the district shall decide the amount of the fee, if any, that a part-time student is required to pay." We believe this language indicates a legislative intent that governing boards need to specifically determine whether part-time students will be charged a health fee. Making a clear determination concerning part-time students demonstrates clear compliance with the statute and may insulate districts from potential claims from part-time students that health fees were collected from them without appropriate board approval.

Section 76355 also requires boards to adopt rules and regulations that exempt certain students from the payment of health fees. Under subsection (c), districts **must** exempt students who depend on prayer for healing, and students attending community college under an approved apprenticeship program. A 2005 amendment to section 76355 eliminated the requirement that low-income students (students eligible for a Board of Governors Enrollment Fee Waiver) be exempted from the health fee. Districts are now free to charge the health fee to low income students or to

<u>continue to exempt them if the district so chooses.</u> Districts should ensure that they have appropriate rules and regulations that recognize <u>both of</u> the applicable required exemptions. Districts should also ensure that the existence of <u>the two</u> statutory exemptions is communicated effectively to the students so that they will be aware of potential applicable exemptions.

Questions have arisen about the authority of districts to exempt additional categories of students such as special admit students and students taking only distance education courses. Because the language of the statute is permissive, designating additional categories of students as exempt from the health fee is not prohibited under section 76355 so long as the designation of additional categories does not otherwise violate nondiscrimination laws.

On the other side of the coin, we believe that the health fee may be charged to students who take only online classes or who attend classes at sites away from where the health services center is physically located. The health fee is not designated as a "use" fee, and it appears that so long as the statutory exemptions are offered to all affected students, the fact that their classes may not be physically proximate to a student health center does not remove the fee obligation. Additionally, even though students may take online classes or be enrolled in classes that are offered at sites away from the student health center, that does not necessarily mean that such students will not travel to the health center or otherwise receive student health services.

The Chancellor's Office has been asked whether a district that has previously provided health services may terminate its health services program if it also stops charging students a health services fee. In Legal Opinion 06-06, we concluded

that the maintenance of effort requirement contained in Education Code section 76355 applies to any district that provided health services in the 1986-87 fiscal year, and that it applies even if the district chooses not to charge the authorized health fee. Therefore, any district that provided health services in fiscal year 1986-87 must continue to offer those services, regardless of whether it charges the health fee.

Regulations that address accounting procedures for, and proper uses of, health fee funds appear in title 5, beginning with section 54700.

3.2. Parking Fee: Section 76360(a) authorizes districts to require students and employees to pay a fee of up to \$40 per

semester (\$20 per intersession) for parking services. "Parking services" means "the purchase, construction, and operation and maintenance of parking facilities." (Ed. Code, § 76360(g).) For students who are ridesharing or carpooling, as defined, section 76360 reduces the maximum fee to \$30 per semester and \$10 per intersession. Districts may charge a discounted parking fee to students who voluntarily purchase an Associated Student Body card, provided that students who do not choose to purchase the Associated Student Body card are not charged more than the statutory maximum specified in Education Code section 76360.

Districts may charge parking fees above these limits under specific circumstances as follows:

- "(b) The governing board may require payment of a parking fee at a campus in excess of the limits set forth in subdivision (a) for the purpose of funding the construction of on-campus parking facilities if both of the following conditions exist at the campus:
 - (1) The full-time equivalent (FTES) per parking space on the campus exceeds the statewide average FTES per parking space on community college campuses.
 - (2) The market price per square foot of land adjacent to the campus exceeds the statewide average market price per square foot of land adjacent to community college campuses.

If the governing board requires payment of a parking fee in excess of the limits set forth in subdivision (a), the fee may not exceed the actual cost of constructing a parking structure."

Under section 76360, low income students are exempt from parking fees over \$20 per semester. Low income students are described in section 76300(g) as those who demonstrate financial need under federal standards or income standards established by the Board of Governors and students receiving benefits under the Temporary Assistance to Needy Families Program (formerly Aid to Families With Dependent Children), the Supplemental Security Income/State Supplemental Payment Program or a general assistance program. (See Legal Opinion L 94-12.)

Parking fees may not exceed the actual cost of providing parking and may only be charged to those who use the parking services. Parking fees may only be expended for parking services or for reducing costs to students and employees using public transportation to and from school. Finally, section 76360(d) allows governing boards to require persons other than students and employees to pay fees for using the parking services. (However, Ed. Code, § 67301(b) requires the Board of Governors to adopt regulations requiring the governing board of each community college district to provide visitor parking at each campus at no charge for disabled persons or veterans and for persons providing transportation services to individuals with disabilities. Regulations in conformance with this requirement are contained in the California Code of Regulations, title 5, § 59306(a).)

The Chancellor's Office has determined that while Education Code section 76360 provides that parking fees collected by a community college "shall be expended only for parking services . . . " the law does not assign any particular priority to the various types of parking service expenses. (Ed. Code, § 76360(e).) As such, districts may use their discretion when

allocating parking fees for various parking services such as parking security, repair, and maintenance.

The Chancellor's Office has also determined that alternative authority to charge a fee for the use of a parking facility exists under limited circumstances. Where a parking facility was constructed with the proceeds from revenue bonds under Education Code section 81901, fees may be charged for the use of that facility without regard to section 76360. Section 81901 independently authorizes a charge for the use of such a facility.

3.3. Transportation Fee: Districts may require students and employees to pay a fee for the purpose of reducing fares for services provided to these students and employees by common carriers or municipally-owned transit systems, or to partially or fully recover transportation costs incurred by the district. Only those students and employees who use the transportation services may be required to pay the fees.

If the foregoing option is the basis for a transportation fee, students who take only online classes and do not use the services may not be charged a use fee.

However, in two situations, a district may charge transportation fees regardless of actual usage:

- 1. All students and employees at a campus may be required to pay a transportation fee if a majority of the students and a majority of the employees at that campus vote for such a proposition; or
- 2. All students at a campus may be required to pay a transportation fee if a majority of the students at that campus vote that all students will pay. In this instance, the employees are not entitled to use the services.

Elections may be held on a campus-by-campus basis. Fees authorized by election remain valid for "a period of time to be determined by the governing board of the district." (Ed. Code, §§ 76361(b)(1) and 76361(b)(2).)

A recent review of the legislative history of section 76361 suggests that the phrase "a majority of all students/employees on a campus" means a majority of those students/employees voting in the election held for the purpose of authorizing the fee. If the transportation fee results from an election described above, students who take only online classes may be charged the fee, because the assessment does not depend on actual use of the services.

The maximum amount of transportation fees may not exceed the amount needed to reimburse the district for transportation service. The combined amount of transportation fees under section 76361 and parking fees levied by a district under section 76360 may not exceed \$60 per semester or \$30 per intersession, or a proportionate equivalent for part-time students.

Low income students (as reasonably defined by a district) must be exempted only when a district is, itself providing transportation services. There is no requirement for exempting low-income students where a district establishes a fee pursuant to section 76361 for the purpose of "reducing fares for services provided by common carriers or municipally owned transit systems." (See Legal Opinion L 05-10).

A new provision, Education Code section 76361.1, will be applicable to Los Rios Community College District and Rio Hondo Community College District, effective January 1, 2007. This section allows these two districts to charge a fee to students or employees who use transportation services or to hold an election to determine who will be required to pay fees. Fees for part-time students must be prorated, and the affected governing boards may adopt rules and regulations to exempt low-income students from all or part of the fee. The statute also restricts contracting for transportation services that are funded with transportation fees without a student vote for the fee.

Finally, the governing board may require payment of a fee, to be set by the governing board, for the use of transportation services by persons other than students and employees.

Additional authority for transportation fees is set forth in Education Code section 82305.6. This section provides that when the district provides for the transportation of students to and from the colleges, the governing board may require the "parents and guardians of all or some of the students transported, to pay a portion of the cost of such transportation. . . . " The amount charged can be no greater than that paid for transportation on a common carrier. Parents and guardians who are indigent are exempt, and no charge can be made for transporting students with disabilities.

It is the opinion of the Chancellor's Office that, under the authority of the permissive code, a district can provide for transportation of students to and from the colleges, and that students who wish to avail themselves of this district service can be required to pay a fee. As long as students are not required to take this transportation, but rather have it available as an option, this is a service that may be provided for a fee under the authority of the permissive code. This authority does not extend to "on-campus shuttles or other transportation services operated on a campus or between the campus and parking facilities owned by the district." Education Code section 76361(f) expressly prohibits such fees.

3.4. Student Representation Fee: Education Code section 76060.5 provides that a mandatory student representation fee of \$1 per semester may be charged of all students, upon a favorable vote of two-thirds of students voting in an election on the matter (provided that the number of students who vote equals or exceeds the average of the number of students who voted in the previous three student body elections). Students may refuse to pay the fee for religious, political, financial, or moral reasons. Districts should ensure that students are advised of the options for not paying the fee, and should provide reasonable mechanisms for declining to pay. The statute has been implemented by regulations of the Board of Governors, set forth in title 5, sections 54801-54805.

In Legal Opinion <u>L 98-09</u>, we concluded that a newly formed student government organization cannot order an election for the purpose of having the student body vote to establish a student representation fee without having held three prior student body elections. In specifically requiring three previous student body elections prior to raising the student fee issue, the intent of the Legislature was to ensure meaningful participation in the student body election process. However, under certain circumstances, voting results from student body elections held under a previous and related student government structure may satisfy this requirement.

Although the language of section 76060.5 may be somewhat ambiguous, in our view, the statement that the fee shall be collected at or before registration does not require every student to pay the fee subject to a refund process. The section clearly allows students to "refuse to pay the student representation fee" if they assert any of the statutory bases for nonpayment (i.e., religious, political, financial, or moral reasons). We believe the language concerning collecting the fee at or before registration largely reflects a temporal consideration while the language regarding who must pay is fundamental to collection of the fee. Thus, we believe that students may refuse to pay the fee in the first place and should not be required to pay the fee and then secure a refund.

It is the opinion of the Chancellor's Office that revenues from the student representation fee can be used for any purpose related to representing the views of students with governmental bodies. Such revenue can be used to travel to and from conferences sponsored by student organizations where legislative matters will be discussed, to purchase computer equipment needed to conduct legislative research, to subscribe to legislative publications, and/or to pay for any other expense reasonably necessary to effectuate student representation activities. (See Legal Opinion O 95-24.)

However, it is our view that revenues from the student representation fee may not, consistent with Education Code section 76060.5, be used to support or oppose ballot measures or candidates.

Section 76060.5 describes a fee for students enrolled in a college where a student body association has been established. If a district has multiple colleges and the same student attends more than one college in the district, that student may be responsible for a student representation fee at each college where a fee under section 76060.5 has been properly

established.

3.5. Student Center Fee: Education Code section 76375 authorizes districts to establish an annual building and operating fee, for the purpose of financing, constructing, enlarging, remodeling, refurbishing, and operating a student body center. The fee may be required of all students attending the community college where the center is located. The fee can only be imposed if at least 20% of the students who were enrolled in credit classes as of October 1 of the school year during which the election is held actually vote, and only if at least two-thirds of the students voting in an election held for that purpose vote in favor of the fee. The fee cannot exceed \$1 per credit hour, up to a maximum of \$10 per student per fiscal year. Noncredit enrollees cannot be required to pay the fee, nor can recipients of Temporary Assistance to Needy Families, SSI/SSP, or general assistance. The Board of Governors has adopted section 58510 of

title 5 of the California Code of Regulations to implement this provision.

The governing board needs to be involved at two stages of the process. Title 5, section 58510 requires the governing board to "establish procedures for an election conducted for the purpose of collecting a student body center building and operating fee, and call an election for such purpose." At the conclusion of the election, "the fee shall be imposed by the governing board, at its option, only after a favorable vote of two-thirds of the students voting in an election held for that purpose" (Ed. Code, § 76375.) (See Legal Opinion L 03-27.) It is important to note that section 58510(d) requires that the ballot specify both the intended duration and the intended use of the fee. In Legal Opinion L 06-01, we determined that a student center fee established pursuant to an election could not be utilized to pay operating expenses where the ballot measure failed to specify the intended use. Districts are cautioned that collection of a student center fee imposed pursuant to an invalid election may require a refund of those fees.

Section 76375 describes fees for students attending the college where the student body center is to be located. If a district has multiple colleges and the same student attends more than one college in the district, that student may be responsible for fees at each college where a fee under section 76375 has been properly established.

When a student center is financed by the issuance of revenue bonds, a student **use** fee may be appropriate. See item 3.11 below for a summary of applicable requirements.

3.6. Student Records Fee: Education Code section 76223 authorizes districts to make a reasonable charge in an amount not to exceed the actual cost of furnishing copies of any student record, provided that no charge can be made for furnishing up to two transcripts or up to two verifications of various types of student records. Districts should have clear policies and practices that provide for two transcripts and two verifications free of charge. No charge may be made for the cost to search for or retrieve any student record. It should be noted that federal law and regulation prohibit the charging of fees for any documentation required for a student's receipt of Title IV student financial aid.

Flat fees for transcripts and verifications should be approached cautiously because districts must be able to demonstrate that the actual cost of providing transcripts and verifications exceeds the flat fee amount charged in every instance.

In Legal Opinion <u>L 99-02</u> we concluded that while Education Code section 76223 does not allow a district to charge a fee for verifying enrollment status for purposes of determining eligibility for district programs and activities, the district may offer the student the right to purchase a card providing quick and convenient verification of enrollment, provided the purchase of such a card is completely optional. We also noted that a district may charge a fee for a student identification card that serves as a verification of enrollment when required by outside entities, provided the fee for the card is not a condition of enrollment, is only levied once the student has requested three or more enrollment verifications, and the price of the card does not exceed the cost of making two copies of a verification of enrollment documents the student would otherwise be required to obtain. (See also 4.4, Mandatory Student Identification Card Fees, below.)

Districts may offer expedited copying for an additional fee, when a student requests the transcript or enrollment verification copy without having to wait the usual waiting period. The expedited service fee is an optional fee so long as students are otherwise able to receive records without an enhanced charge for expedited service.

- **3.7. Dormitory Fee:** Education Code section 81670 authorizes districts to construct and maintain dormitories, and to fix the rates that will be charged to students for quarters in the dormitories.
- **3.8. Child Care Fees:** Section 79121 et seq. and section 66060 authorize the operation of child development programs. Section 79121(c) requires fees for student families. Additionally, it is the opinion of the Chancellor's Office that districts have the authority to charge student parents a fee for child care services for their children in programs that are not specifically established as child development programs under sections 66060 and 79120 et seq. The fees are being charged to parents who voluntarily choose to use this service. However, a district cannot charge a student a fee other than the enrollment fee to enroll in child development classes.
- **3.9. Foreign Citizen/Resident Capital Outlay Fee:** Education Code section 76141 authorizes community college districts to charge nonresident students who are both citizens and residents of a foreign country a capital outlay fee. The amount of the fee cannot exceed the amount that was expended for capital outlay in the preceding fiscal year divided by the total full-time equivalent students in the preceding fiscal year. Additionally, the fee cannot be more than 50% of the nonresident tuition fee charged under section 76140.

Governing boards of districts that choose to charge this fee must adopt a definition of "economic hardship" as defined in section 76141, and they must then exempt from payment of the fee each student who demonstrates either economic hardship or that he/she is a victim of persecution or discrimination in his/her home country.

In addition, the Chancellor's Office has concluded that students who are exempt from nonresident tuition fees under Education Code section 68130.5 cannot be charged the capital outlay fee. (See Legal Opinion M 04-15.)

These mandatory exemptions should be clearly communicated to students.

- **3.10. Foreign Citizen/Resident Application Processing Fee:** Education Code section 76142 authorizes community college districts to charge nonresident applicants who are both citizens and residents of a foreign country a processing fee not to exceed the lesser of (1) the actual cost of processing an application and other documentation required by the federal government, or (2) \$100, which may be deducted from the tuition fee at the time of enrollment. No processing fee can be charged to an applicant who would be eligible for an exemption from nonresident tuition pursuant to Education Code section 76140, or who can demonstrate economic hardship (as defined by the district in accordance with certain parameters specified in section 76142).
- **3.11.** Use Fee for Facilities Financed by Revenue Bonds: When the construction of a facility is financed by the issuance of revenue bonds, Education Code section 81901(b)(3) authorizes the governing board of a community college district to "fix rates, rents, or other charges for the *use* of any project acquired, constructed, equipped, furnished, operated, or maintained by the board, or for services rendered in connection therewith. . . . " In Legal Opinion L 97-17 we held that section 81901(b)(3) allows districts to charge students a fee for the use of such facilities. In particular, where a student center is constructed using revenue bonds, this allows the district to charge a fee that exceeds the maximum \$10 student center fee provided for in Education Code section 76375. However, Opinion L 97-17 also notes that section 81901(b)(3) authorizes a use fee, and thus does not authorize districts to charge a blanket fee to all students.

It would be justifiable for all students attending classes where the facility is located to be assessed a fee for use of such a

facility. It would be reasonable to charge a use fee to students attending classes at other nearby locations, if those students occasionally come to the main campus to use the facility. However, in our view, it is not permissible to charge such use fees to students attending classes at remote locations, especially sites outside of the district, unless there is evidence that students in those classes use the facility on at least an occasional basis. One possible approach would be to give students attending classes at remote locations the option to decline to pay the fee, with the understanding that they then lose any right to use the facility.

Even when use fees are authorized by section 81901, the amount of the fees must fall within the parameters of Education Code section 81956. That section authorizes districts to charge rents, charges, and fees to cover annual operating and maintenance expenses, and to make bond payments. Fees that exceed the amount of these expenditures are not authorized. Districts that charge fees under these provisions should undertake an annual calculation of the fee necessary to cover annual costs, and charge use fees that are reasonably designed to raise that amount.

3.12. Credit by Examination Fee: Fees charged for credit by examination offered pursuant to title 5, section 55753 have been determined to be optional fees for service. A reasonable fee for credit by examination is the per unit enrollment fee established by Education Code section 76300.

Districts that incur additional verifiable expenses in connection with offering credit by examination may be able to demonstrate reasonable fees beyond the fee established by Education Code section 76300.

Districts lack the authority to charge different types of students different credit by examination fees unless they can demonstrate that different services and different corresponding costs are involved. For example, it is not appropriate to charge international students a higher credit by examination fee if they receive the same service as students who are residents of California.

3.13. Refund Processing Fee: Section 58508 of title 5 of the California Code of Regulations permits districts to retain a maximum \$10 from enrollment fees as a refund processing fee. Section 58508 is not general authority to retain portions of other mandatory fees or to charge a processing fee to refund other mandatory fees.

However, we believe that districts may charge a refund processing fee for optional fees that students voluntarily pay, if certain conditions are satisfied. Fees that are fully optional are those which a student may freely elect to pay or not pay; payment of the fee is not a condition of registration, enrollment, or attendance in any course; the choice not to pay the fee will not adversely affect the student in any essential district program or activity; and the fee is not charged in areas for which the district receives state funding. If the student chooses to pay the fee and then later withdraws or decides to discontinue use of the optional service, districts may charge a reasonable refund processing fee (that does not exceed the district's actual processing costs) if certain preconditions are met.

In particular, districts would have to advise students specifically, in writing and in advance of their payment of the optional fee, that if they choose to pay that optional fee and then seek a refund, a processing fee in a specified amount will be withheld. A statement to this effect would need to be clear and unambiguous so that students are fully informed when they are considering whether to pay an optional fee, that they will not be able to secure a full refund of that optional fee. If a district meets these conditions, it may then charge a reasonable processing fee to those students who choose to pay the optional fee and who then seek a refund or credit.

- **3.14. Telephone/Internet Registration Fee:** Districts that provide the optional service of telephone <u>or internet</u> registration may charge students who choose to use this service a nominal use fee under the authority of Education Code section 70902(a). However, students must be advised as to the amount of the telephone <u>or internet</u> registration fee in advance of registration and further advised that they may register in person (or by other applicable means) at no charge.
- **3.15. Physical Fitness Test Fee:** Districts that offer optional physical fitness or wellness testing that may involve

computerized analyses of various body conditions may charge a reasonable optional fee for the service.

3.16. Instructional Video Leases/Deposits: Video tapes or DVDs provide instructional content for many programs. Charging a "leasing fee" or a "nonrefundable deposit" to students to allow them to take these videos home to view may be allowable depending on the circumstances. In general, students must be provided access to instruction without additional unauthorized charges beyond the enrollment fee. If all students have ample opportunities to access the instructional materials free of charge, an optional lease or deposit fee may be charged to students who want more convenience.

However, a key issue will be the nature of the free access. Thus, where 12 monitors were available in the library for viewing instructional tapes and 1187 students were enrolled in the class, there was no real opportunity for all the students to access the tapes free of charge. No optional leasing/deposit fee is appropriate under these circumstances.

By contrast, if a district shows instructional videos necessary for a class at numerous and varied times in a campus auditorium during each week of instruction such that all enrolled students have ample opportunities to access the instruction without charge, a district may charge a reasonable optional leasing/deposit fee to students who would prefer to take the video home for their viewing convenience.

3.17. Credit Card Use or Noncash Fee: Students should have a reasonable mechanism for paying their fees without incurring additional charges.

There is no statutory authority for a fee for using a credit card to pay student financial obligations. Students may be charged an optional service fee for the convenience of being able to use a credit card. However, students must always be given the option of paying by cash, check, or other means that do not involve paying the service charge. Additionally, students must be notified in advance what the fee will be and of the alternative free payment methods available to them.

Districts are encouraged to exercise caution in establishing credit card payment systems to avoid the proliferation of credit card debt by students. As educational options become more expensive for our students, more students will be unable to accumulate all the funds necessary at the beginning of a term to pay their full expenses and may be forced to use credit cards as a means of deferring some of the expense. Districts may wish to consider the deferral mechanism described in section 58502 of title 5. That section provides in pertinent part: "The district governing board may establish a policy authorizing the collection of the [enrollment] fee to be deferred under conditions determined by the governing board." In establishing the conditions of a deferral process, districts are authorized to withhold grades, transcripts, diplomas and registration privileges from any student who fails to pay a proper financial obligation to the district. (Cal. Code of Regs., tit. 5, § 59410.) If a district permits deferral, a student who registers in advance may be dropped from a course if he or she does not pay the required enrollment fees **prior to the beginning of instruction**. However, a district which permits deferral **may not** allow a student to enroll and then involuntarily drop him or her from classes **after instruction has begun** for failure to pay the enrollment fees. (See Legal Opinion O 04-14.)

There is no authority for charging a fee to students who wish to participate in a process for deferring the payment of their enrollment fees. Such a fee would be a prohibited late payment fee. (See 4.16, below.) For a further discussion of deferring enrollment fees, see 2.1 above.

It has also been suggested that students may be charged a fee each time they make a payment to the district except when they pay by cash. That is, all credit card, check, money order, or other transactions would carry a fee. In order to justify this approach, a district would need to demonstrate that cash payments are truly a reasonable and viable free option. Districts might be able to do so by demonstrating that most students recently paid their fees with cash. Districts should also be able to demonstrate the ability to accommodate larger numbers of students paying fees in person because they are using cash. Absent such proof, it appears that cash payments do not provide a reasonable free option. Absent a

reasonable free option, the proposed noncash fees would be improper.

Districts might also consider any potential consequences, such as greater security issues, that might be associated with the increased use of cash.

- **3.18. International Student Medical Insurance Fee:** To the extent that federal requirements mandate that international students have medical insurance, districts may offer students the option to demonstrate that they have their own appropriate insurance or may offer the student the option of paying for a medical plan provided through the district.
- 3.19. Fees for Criminal Background Checks: There is no statute or regulation authorizing a district to charge a fee to conduct a criminal background check on a student. Thus, as a general matter, a district may not impose a mandatory fee for this function. However, where a district has properly established a criminal background clearance as a prerequisite or enrollment limitation for enrollment in a clinical course, it may offer to process the request on the student's behalf in exchange for a fee to cover the costs it incurs. It is important to note that this approach is only permissible provided that

the district allows a student to obtain his or her own criminal background clearance from other appropriate sources. (See Advisory 05-02 for a detailed Q&A regarding criminal background clearances.)

3.20. Fees for Providing Special Certificates: Students sometimes ask for special documentation to verify that they completed coursework. For example, students may request certificates to document to the California Board of Registered Nursing that they completed continuing education contact hours.

If a district offers special certificates or other verifications that contain specialized information that would not normally be included in standard district records (e.g., a registered nurse number or a printed statement that the certificate must be retained by the licensee for a period of years after the course ends), the district may charge an optional fee to cover the cost of producing the certificate.

Chapter 4

PROHIBITED PRACTICES

As noted at the outset of this Handbook, only fees that are specifically required or authorized by law may be imposed as mandatory fees. Under certain circumstances, districts may charge students optional fees. This Chapter considers kinds of fees that may not be charged under current law.

- **4.1. Late Application Fee:** There is no statutory authority for a late application fee, and the Chancellor's Office has determined that a late application fee cannot be charged under the authority of the permissive code.
- **4.2. Add/Drop Fee:** Statutory authority for a fee for the cost of making program changes initiated by a student no longer exists, and the Chancellor's Office has determined that an add/drop fee cannot be charged under the authority of the permissive code.
- **4.3. Mandatory Student Activities Fee:** There is no statutory authority for charging a mandatory student activities fee. However, an optional or voluntary student activities fee is permissible. It is imperative that the optional nature of the fee be communicated to students and that student have an effective means of declining to pay the fee.

Questions have been raised regarding the legality of the "negative check-off" approach to collecting a student activities fee. Under this approach the student, when registering or enrolling, is given the option of checking a box indicating that he or she does not choose to pay a student activities fee. If the student checks the box, he or she will not be charged the fee. If the student does not check the box, the fee will be assessed. Because this negative check-off approach preserves a student's option to pay or not pay the fee, it is both legal and appropriate. The test to be applied in implementing a

negative check-off approach is that a reasonable student going through the enrollment process and reading the forms must understand that he or she has the option of paying or not paying the student activities fee.

Questions have also been raised about the legality of a system of student activity fee collection that requires the student to obtain a signature of a district official to waive the fee. Because the student's option to pay is preserved, the method is technically legal. However, because additional tasks are required of both the student and the district to process a student's desire to reject an optional fee, this method is fraught with potential problems. To implement a sign-off system, the district should take every precaution to ensure that officials authorized to sign off the fee for students are on-site and **easily accessible** during the registration period. The test to be applied here is whether opting not to pay the fee is unduly burdensome. For obvious reasons, mail, on-line, or telephone registration processes will require even more careful assessment.

In Legal Opinion <u>L 01-03</u>, we assessed a telephone registration system that automatically calculates all mandatory and optional fees and then allows the student seven working days to pay the fees and secure waivers for optional fees they do not wish to pay. Although the Chancellor's Office does not recommend such a process, we analyzed whether the fee waiver process was unduly burdensome to the students. We concluded that requiring a student to secure and sign one form that was simple to complete to waive optional fees that are automatically assessed during phone registration was not unduly burdensome. Conversely, if students were required to secure and sign multiple forms from multiple sources, that process would be unduly burdensome and would be unacceptable.

4.4. Mandatory Student Identification Card Fees: In Legal Opinion <u>L 97-11</u>, we concluded that a district cannot charge a mandatory fee for a student identification card, even if the card also has other purposes, such as use as a debit card for purchase of instructional materials. Education Code section 76365, and the implementing regulations contained in title 5, section 59400 et seq., permit districts to require students to provide certain instructional materials at the students' own expense. However, Legal Opinion <u>L 97-11</u> specifically concluded that student ID cards do not fall under the definition of "instructional materials" contained in title 5, section 59402(b), and thus, charging a fee for a student ID card cannot be justified. Similarly, because there is no statutory authority for such a fee, a district may not charge a fee to replace a student ID card that was initially issued at no charge. (See also 2.5, Instructional Materials, above.)

Districts should review their practices regarding replacement ID cards to ensure that replacement cards do not carry a mandatory charge.

The prohibition to mandatory fees for student identification cards does not mean that a district cannot offer students the option to purchase such a card in order to obtain certain optional benefits such as faster registration, ease of purchasing at the bookstore, etc. We also find no reason to believe that a district may not provide students, at district expense, with a card which students are then required to use for certain identification purposes. In Legal Opinion <u>L 99-02</u> we concluded that while Education Code section 76223 does not allow a district to charge a fee for verifying enrollment status for purposes of determining eligibility for district programs and activities, the district may offer the student the right to purchase a card allowing quick and convenient verification of enrollment, provided it is completely optional. We also noted that a district may charge a fee for a student identification card that serves as a verification of enrollment when required by outside entities, provided the fee for the card is not a condition of enrollment, is only levied after the student has requested three or more enrollment verifications, and the price of the card does not exceed the cost of making one copy of a verification of enrollment document the student would otherwise be required to obtain. (See also 3.6, Student Records Fee, above.)

Districts should ensure that all of their materials describing optional student ID card fees clearly describe the optional nature of the fees.

4.5. Fees Charged Through Student Body Organizations: Unless expressly authorized by statute, a student body organization cannot charge a fee that a district governing board does not have authority to levy. It should be noted,

however, that student body organizations may charge students a student activity fee or sell them a student body card so long as the fee or charge is optional as discussed under 4.3, Mandatory Student Activities Fee, above.

- **4.6. Nonresident Application Fee:** The Chancellor's Office has determined that a nonresident application fee cannot be imposed on residents of other states under the authority of the permissive code. Because payment of the fee would be a condition of enrollment in or attendance in classes, it cannot be imposed without specific legislative authorization. However, as discussed in 3.10 above, such a fee is authorized with respect to citizens and residents of foreign countries under Education Code section 76142. <u>Districts should note that students exempt from nonresident tuition under AB 540 should not be charged a nonresident application fee pursuant to Education Code section 76142.</u>
- **4.7. Field Trips:** The provisions on field trips are found in sections 55450-55451 of title 5 of the California Code of Regulations. We interpret section 55450(d) to prohibit districts from charging students a fee for planning and organizing a field trip, for participating in a field trip, and for the use of district equipment and supplies such as gasoline during the field trip. Section 55450 permits districts to charge students who participate in field trips for the costs of their meals, lodging, and other "incidental expenses." However, section 55450(d) provides that no student may be prevented from participating in a field trip due to lack of funds. Essentially, districts may not charge a mandatory fee for a field trip unless it exempts students who do not have sufficient funds to pay the fee. This means that students can be asked, but not forced, to pay the costs of their meals, lodging, and other incidental expenses associated with an instructionally related field trip. This is true for both optional and required field trips. Also, while a district is authorized to arrange a meals and lodging package, a student has the option of purchasing the district's package or securing his or her own meal and lodging accommodations. Similarly, as we held in Legal Opinion L 05-12, a district can charge an optional fee for transportation associated with a field trip, so long as the student has the option of paying the fee or securing his or her own transportation.

Questions have been raised regarding districts charging students "entrance fees" for field trips to concerts, museums, plays, etc. In Legal Opinion M 96-17 we held that entrance fees should be considered "incidental expenses" which students can be asked to pay. However, as with other types of field trips, a student cannot be excluded from the event due to lack of funds.

- **4.8. Fees for Dependents of Certain Veterans:** Education Code section 66025.3 provides that community college districts are prohibited from charging "any mandatory systemwide tuition or fees, including enrollment fees, registration fees, differential fees, or incidental fees" to any of the following who are determined to be California residents:
 - 1. Any dependent eligible to receive assistance under Article 2 (commencing with § 890) of chapter 4 of division 4 of the Military and Veterans Code.
 - 2. Any child of any veteran of the United States military who has a service-connected disability, has been killed in service, or has died of a service-connected disability, where the Department of Veterans Affairs determines the child eligible on the basis that the annual income of the child, including the value of any support received from a parent, does not exceed the national poverty level for one person as most recently calculated by the Bureau of the Census of the United States Department of Commerce.
 - 3. Any dependent, or surviving spouse who has not remarried, of any member of the California National Guard who, in the line of duty, and while in the active service of the state, was killed, died of a disability resulting from an event that occurred while in the active service of the state, or is permanently disabled as a result of an event that occurred while in the active service of the state.
 - 4. Any undergraduate student who is a recipient of a Medal of Honor, commonly known as a Congressional Medal of Honor, or any student who is the child of a recipient of a Medal of Honor and who is under 27

years old, provided that his or her income, including parental support, does not exceed the national poverty level and the parental recipient of the Medal of Honor was a California resident at the time of his or her death.

Section 66025.3 (formerly § 32320) excludes a dependent of a veteran who is declared missing in action or a prisoner of war as provided in paragraph (4) of subdivision (a) of section 890 of the Military and Veterans Code. Thus, these students may continue to be charged such fees.

A person who is eligible for the waiver of tuition or fees under these provisions may receive a waiver for each academic year during which he or she applies for that waiver, but an eligible person may not receive a waiver of tuition or fees for a prior academic year. The waiver of tuition and fees under section 66025.3 applies only to persons who are determined to be California residents.

Because the waiver applies to "any mandatory systemwide tuition or fees, including enrollment fees, registration fees, differential fees, or incidental fees," the first step in applying this waiver is to exclude enrollment fees because they are explicitly covered. Nonresident tuition is not an issue because the waiver only applies to California residents who do not pay nonresident tuition in any case. Because the Legislature has authorized very few "mandatory" or "systemwide" fees for community college students, the application of this section is limited in the community college system. Certainly, the many optional fees that are authorized would not be covered. Should future fees be set by the Legislature, a review of whether those fees are "mandatory" and "systemwide" will be required.

4.9. Fees for Required or Funded Services: It is the opinion of the Chancellor's Office that community college districts may not charge students a fee for the use of a service that the district is required to provide by state law or that the district is already funded to provide. For example, in Legal Opinion <u>L 95-23</u> we concluded that a district may not charge students a fee for counseling services that the district is required to provide under Education Code section 72620 or title 5, section 51018.

Services such as graduation evaluation and general education evaluation are often performed as a counseling function, and we have determined that charges may not be made for counseling services. The IGETC evaluation is another example of an activity that districts are funded to perform and/or that is part of the counseling function. As such, fees for these services are not appropriate. Similarly, a district may not charge students an additional fee for use of health services which are already funded from student health fees collected pursuant to Education Code section 76355, or for the use of computers, computer maintenance or Internet service which were paid for by state funds which the district was either required or specifically permitted to use for these purposes.

Additionally, districts are required to graduate those students who meet applicable graduation standards, and they may not charge a graduation application fee as a condition to being able to graduate or a fee to petition for an earned degree. For the same reason, districts may not charge students for their diplomas, nor may districts charge students a mandatory fee for a diploma cover or require students to purchase a cover from the bookstore or elsewhere.

No authority exists for a general mandatory "student services fee."

There is no authority to charge a fee to students for assessment tests that are a part of the matriculation process. The matriculation allocation pays the colleges for their testing programs, so levying a charge for testing would be charging for a program that is already state supported. Similarly, it is impermissible to charge for assessments conducted as part of counseling services which are either funded through the matriculation program or required under title 5, section 51018.

A question has been raised as to whether districts may charge when students take assessment tests multiple times. If the tests are part of the matriculation or counseling programs, retesting does not change the fact that these programs are

already funded or required by the state. If a test is to determine whether a student has met a course prerequisite, no fee may be charged because mandatory charges are not permissible for anything that is a condition of enrollment in a course, unless the charge is specifically required or authorized by law.

Although districts may offer retesting within their matriculation programs, they are not required to do so. A district might have a policy which provides students the option to go through initial assessment and then be tested again if they withdraw and are not enrolled for a long period of time. Retesting may also be indicated if a student can show extenuating circumstances that might have adversely affected the initial testing results (e.g., student illness, death in the student's family, etc.). Beyond such circumstances that may indicate a high potential for significant differences in the testing results, districts should consider whether multiple retesting constitutes an unnecessary expenditure of matriculation funding.

We have been advised that students from districts that do not permit multiple retesting may seek retesting from neighboring districts that offer multiple retesting options. In our view, testing and retesting services should be offered to persons who are at least admitted and preparing to enroll in the district where the testing is performed. Additionally, districts may wish to encourage student focus on assessment scores rather than test scores alone.

- **4.10. Refundable Deposits:** In Legal Opinion <u>L 95-23</u> we held that a "refundable deposit" amounts to a fee if it is required as a condition of registration, enrollment, or entry into classes, or as a condition of completing the required classroom objectives of a course. Therefore, statutory authority is required in order to impose such a charge on a student regardless of whether it is characterized as a "refundable deposit" or as an ordinary nonrefundable fee.
- **4.11. Fees for Distance Education (Internet Access):** In Legal Opinion <u>L 95-33</u> we held that a district may not charge an additional mandatory fee for a credit course delivered via Internet where the additional fee is intended to cover the cost of Internet access. If instruction is offered as a community service class without credit, a district could charge students for the cost of Internet access necessary to participate in the class. Such a fee could also be charged for a credit course if the fee is truly optional (the student can participate effectively without paying the additional fee), but, there is no statutory authority for charging such a fee for a credit course if the fee is mandatory.

The recent revision to title 5, section 59402, which permits charging instructional materials fees for access to certain electronic materials, does not alter the above analysis with respect to Internet access. As amended, section 59402 defines the term "tangible personal property" to include "electronic data that the student may access during the class and store for personal use after the class in a manner comparable to the use available during the class." While this would permit charging for access to an online textbook or other specific instructional material, it does not justify charging for Internet access because the student cannot store every document available on the Internet and cannot conduct research after the course for which access is purchased has ended. (See also Appendix A.)

- **4.12. Mandatory Mailing Fees:** There is no express authority for requiring students, as a condition of enrollment, to pay a fee to cover the costs of mailing grade reports, registration packets, and other student documents. As discussed in 3.6, above, Education Code section 76223 authorizes charging students for "the actual cost" of providing copies of student records. Except as discussed below, districts should absorb the costs of their basic required communications with their students. In Legal Opinion M 96-17, we explained that districts may charge a flat fee for mailing costs only if all the following conditions are met:
 - 1. Students are not charged for mailing documents other than individual student records (e.g., published class schedules or registration packets that do not relate specifically to a particular student);
 - 2. Each student is not charged an amount in excess of the actual cost of furnishing the records he or she receives;

- 3. Students are advised that they will not be barred from registering or enrolling in any course if they decline to pay the fee; and
- 4. Students are advised that if they do not wish to be charged for mailing costs they may come to campus to obtain and pay for copies of student records.
- **4.13. Mandatory Fee for Use of Practice Rooms:** In Legal Opinion M 96-17 we considered a situation where a college charged music students a mandatory fee for the use of practice rooms which they were required to use as a part of their class assignments. We held that this could not be justified as an instructional materials fee and that there was no other statutory authority for the practice. However, it would be permissible for a college to make practice rooms available for students who are willing to pay an optional service fee for their use.
- **4.14. Apprenticeship Course Fees:** Education Code section 76350 prohibits community colleges from imposing resident or nonresident charges or fees for apprenticeship courses offered pursuant to Labor Code section 3074. On the other hand, in Legal Opinion <u>E 00-22</u> we concluded that enrollment fees may be charged to apprentices enrolled in courses which are not counted toward satisfying the related and supplemental instruction required under the apprenticeship agreement described in Labor Code section 3074.
- **4.15. Technology Fee:** The Chancellor's Office has also considered the viability of a fee that gave students access to computer labs and computers, the Internet, and e-mail. About 98% of available computers were covered by the fee; the remaining 2% of the computers (approximately 30 out of 1500) were available without charge to any student.

It was concluded that the fee would be a permissible optional fee with respect to students who were not in courses where such technology was required. However, as noted in 4.9 above, even an optional fee would be prohibited if the district received state funds for this purpose. Costs associated with the purchase of the computers, maintenance of such computers or other related costs, may be recovered through an optional fee only to the extent that such state funds were not used to support those expenses. That is, a district may not use funds that are required or expressly authorized for a specific purpose and also charge students a fee to cover the same costs, even if the fee is optional.

4.16. Late Payment Fee: It is not permissible to charge a late payment fee to students who are allowed to start attending classes before they have paid their enrollment fees.

Title 5, section 58502 requires the enrollment fee to be charged at the time of enrollment. However, the section also permits deferral of the collection of the fee under conditions established by the governing board. Therefore, assuming a governing board has authorized a deferral process, students may pay their enrollment fees at some point after enrollment. Section 59410 of title 5 permits districts to withhold grades, transcripts, diplomas, and registration privileges from those students who fail to pay outstanding financial obligations, such as outstanding fees. Section 59410 establishes the mechanism for addressing unpaid fee obligations, and an additional late payment charge is not authorized. For those students who ultimately fail to pay their enrollment fees, districts may also pursue recovery through the COTOP system.

4.17. Nursing/Healing Arts Student Liability/Malpractice Insurance: Section 55234 of title 5 of the California Code of Regulations provides in pertinent part that districts that offer nursing programs, or related programs in the healing arts may maintain classes at hospitals. The same section provides "The governing board may purchase liability insurance for the students with district funds." Thus, districts are authorized to pay for student liability insurance for these programs. Absent statutory authority to require students to pay for such insurance, we believe that the authorization of section 55234 is the exclusive means for covering the cost of the insurance.

4.18. Cleaning Fees: In Legal Opinion <u>L 02-13</u>, we analyzed a flat fee that was charged to students who failed to clean out their chemistry class lockers at the end of the term. The district required students to use the lockers and it provided the locks. The fee was charged if the lock had to be cut off and the contents of the locker removed, cleaned, and inventoried.

There is no statutory authority that mandates or permits a fee to remove the lock and to clean and inventory the contents of a locker. The flat fee had no direct relationship to the work required because the fee was the same whether there was little or no cleanup or a lot of cleanup work. The fee cannot be justified as an instructional materials fee because no tangible personal property is involved. The fee cannot be justified as a service to students because the student receives no service. Instead, the fee merely permits a district to offset some of the cost of cleaning its own equipment or supplies. Even if there were a discernable service to the students, the fee would have to be optional, not mandatory. Based on the foregoing, we concluded that such a fee is not allowed.

4.19. Breakage Fees: In Legal Opinion <u>L 02-13</u>, we assessed a breakage fee charged to chemistry students. The fee covered breakage that occurred during student laboratory work. We noted that breakage fees are neither mandated nor authorized by statute, nor are they "instructional materials" fees. Instead, the fee appeared to be designed to reimburse the district for the cost of replacing district equipment or materials that students break. A certain amount of breakage must be absorbed by districts in their normal operations, and insurance may be secured against breakage in appropriate cases.

If students intentionally destroy district property, districts may wish to pursue disciplinary action under their rules of student conduct.

In September 2005, Governor Schwarzenegger vetoed AB 1070 that would have allowed community college districts to charge students for the cost of replacing or repairing instructional equipment that was lost or damaged. The veto reflected the Governor's concern that it could deter students of limited means from pursuing courses of study that require the use of costly equipment, particularly in areas such as science, medicine, or nursing.

4.20. Test Proctoring Fees: There is no authority that permits a district to charge students a fee to cover the costs of having someone present while students are taking tests to ensure that the students do not cheat on the tests.

APPENDIX A

APPLICATION OF INSTRUCTIONAL MATERIALS REGULATIONS TO SPECIFIC Situations

Chapter 2, item 2.5, sets forth a series of questions which are designed to help districts determine whether they have the authority to require students to provide materials or to charge students a fee for materials provided by the district. Those questions should assist districts in analyzing the application of Education Code section 76365 and title 5 regulations on instructional materials (§§ 59400-59408) in specific instances.

Over the years, a number of specific items have been considered under the instructional materials standards.

Ammunition - Ammunition that is used in connection with police science courses (shooting at the practice range) is a material that students can be required to provide. To the extent that shell casings can be reloaded, they can be taken from the course setting, and they are not wholly consumed, used up or rendered valueless as they are applied in achieving the required objectives of a course.

Bluebooks - Used bluebooks if returned to students, are materials of continuing value to the student outside of the classroom setting. If the district is the sole provider of bluebooks, they must be provided to students at the district's actual cost. If used bluebooks are not returned they are not of continuing value to the student and thus should be provided by the district.

Chemicals - see **Welding Rods** (and other transformed materials) below.

Clay - Clay is an example of a "transformed" material that, under most circumstances, can retain continuing value outside of the classroom setting. For instance, a district could require that a student provide 20 pounds of a given type of clay in order to take a course. The clay can be sold through the college bookstore if the student wishes to purchase it there. The clay, when converted into objects and fired in a kiln, can be taken from the classroom by the student. The clay is not wholly consumed, used up or rendered valueless in the process of becoming an object.

A critical distinction to apply with respect to transformed materials is whether the transformed material becomes part of something that a student will take from a class, or part of something that is just used for practice, and will not become the property of a student. Materials used in practice--objects that don't become the property of the student--should be provided by the district; whereas if the material is part of an object that becomes the property of the student, it can be required.

Another method to handle transformed materials such as clay is to provide the material for free, but to charge the student for any transformed material that he or she wishes to take from the classroom. Under this method, the material doesn't become the permanent property of the student until he or she chooses to buy it. In any case, if students are required to provide clay, the transformed objects must become their property.

Other examples of transformed materials which can have value to the student outside of the classroom setting include wood, metal, film, photographic paper, oil paints, canvas, cloth, food and paper generally.

Clothing - see Uniforms and Clothing, below.

Computer Paper - Computer paper is a material which can be used by many students, but which can have continuing value to students based on the information preserved on the paper during the course. For instance, a district could require that each student provide a specified quantity and brand of computer paper in order to enroll in a course. A student wouldn't necessarily be using the box of computer paper he or she bought, but as long as he or she was entitled to keep all printouts, and as long as the student would generate roughly the quantity of paper he or she provided, a student could be required to provide computer paper.

CD-ROMS - see **Recording Tape**, **Video Tape**, **Floppy Discs**, **CD-ROMS**, below.

Diesel Fuel - see Welding Rods (and other transformed materials) below.

Equipment - Education Code section 76365 specifically mentions equipment as a material that has continuing value to the student outside of the classroom setting. Thus, students can be required to provide their own equipment for classes.

Equipment Use Charge - In lieu of requiring students to provide certain expensive equipment, one suggestion is that students be given the option to "rent" the equipment from the district for the duration of the course. The instructional materials regulations do not address rental of equipment that is required by a district. Rather, the regulations only address the authority of districts to require the equipment.

Generally speaking, rental of equipment should be classified as an "optional fee," and thus would be authorized within the parameters of the permissive code. Districts should not subsidize their equipment budgets by renting equipment

which students should not be expected to own. For instance, it would be improper to require students to provide a certain \$5,000 television camera and then offer them the "option" of renting one for use during the class for \$20 per semester.

Floppy Discs - See Recording Tape, Video Tape, Floppy Discs, CD-ROMS, below.

Flowers and Food - Flowers for a flower arrangement class are an example of a material which can be required, with the student having the option to purchase them from the district. The district can specify the required flowers which the student needs and then provide the student with an option to purchase all necessary flowers from the district for a specified price. The same is true of food for a cooking class. It is contemplated that students in culinary programs will be able to consume and/or to take food items purchased with their instructional materials fees. For example, students may consume or take away pastries they prepare in class. It would not be appropriate, however, for students to be required to supply all of the food for a culinary class unless those food materials have continuing value to the students outside the class. It would not be appropriate for students to pay for food that they prepare for non-students, such as through a dining room or food service program. Similarly, an instructional materials fee would be appropriate in a wine-making class if students are able to keep the wine that they bottle.

Gasoline - see Welding Rods (and other transformed materials) below.

Gym Towels - If having a towel is mandatory to the class, districts may require students to provide their own towels, or the district may provide them. However, the towels cannot be solely or exclusively available from the district based on the health and safety definition of section 59402(c)(1) because district-only towels do not fulfill a health and safety requirement.

Instructional Tapes/Videos - Instructional tapes or videos that must be returned to the district cannot be the basis for an instructional materials fee. Students retain no tangible personal property when the materials must be returned. (See section 3.16 above.)

Instructor-Created Materials - Instructor-created textbooks, syllabi and other instructional materials are generally prepared for specific courses offered by a college or district, and are often solely or exclusively provided by a district. Such materials, in most instances, have continuing value outside of the classroom setting. The district is required to provide these materials unless the exception to title 5, section 59402(c) can be applied. Specifically, the instructor-prepared instructional materials must be provided at the district's actual cost, in lieu of other generally available but more expensive material which would otherwise be required.

By way of example, a textbook, syllabus, or instructor-prepared material costing a district \$15.00 to provide to a student could be required in lieu of requiring the students to secure a nationally published textbook on the same subject which retailed for \$30.00. A district's "actual cost" of producing materials which it solely or exclusively provides can include a small markup necessary for selling the item through the college bookstore. The overall premise is that neither a district nor its employees ought to be making a profit on materials which the district solely or exclusively provides.

Instructor-prepared material can be classified as "optional" if it is not required by the district, or is not required to complete the required objectives of a course to be accomplished under the direction of an instructor during class hours. In this regard, a syllabus or other material could be "highly recommended" without being required. Also a material could be designated for "required reading" without it actually being a required material.

In Legal Opinion <u>L 02-29</u> we addressed several issues concerning faculty authors, subsidy publishers, and the payment of royalties. We concluded that under current law a faculty author may require his or her students to purchase mandatory instructional materials the faculty member created and paid a subsidy publisher to produce even if the price of said materials includes a royalty payment provided the materials are not exclusively available from the district and

provided that local employment agreements or local conflict of interest rules do not prohibit the practice.

In Legal Opinion L 04-11, we addressed whether a student could be required to present proof of "recently purchased lecture notes" as a condition of enrollment. We determined that requiring a proof of purchase was inappropriate, and also determined that payment of a royalty for the instructor's lecture notes was problematic. Requiring "recently purchased lecture notes" raises the question of why a "purchase" is necessary, as opposed to other means of securing materials, such as using a library copy or copies already purchased by other students. Regardless of how they are acquired, unless materials are reasonably related to the achievement of the course objectives, they cannot be established as "required instructional materials" and students cannot be required to provide (or purchase) them. If the lecture notes do not qualify as required instructional materials, they can still be offered to students on a purely optional basis and students could be charged a reasonable optional fee.

If a district determines that lecture notes **do qualify** as a required instructional material, and the lecture notes are solely available through the college bookstore, a fee in the form of the bookstore purchase price may be appropriate, but the price may not include a faculty royalty.

Lab Books, Workbooks, and Sheet Music - Lab books and workbooks are distinguished from texts and instructor-produced materials in that they are written in extensively or have various exercises which result in pages being torn out. Generally speaking, even though such materials are altered, they retain some value to the student outside of the classroom setting, and therefore can be required of students. Sheet music is another example of workbook-type material which can be required.

Laboratory Animals - Under most conditions, required laboratory animals must be provided by the district because they have no continuing value to the student outside of the classroom setting. This general rule, however, does not require a district to provide an unlimited supply of laboratory animals. Laboratory animals in addition to those reasonably needed for completion of course objectives can be sold as "optional" materials.

Decomposable materials used in dissection are not instructional materials because students cannot reasonably retain the materials for future use outside of the classroom.

License Fees and Access Codes - License fees, access code fees, or software subscription fees that allow students to have temporary access to computer or internet programs are not tangible personal property as to the student. Additionally, such access is usually restricted to the term of the class and does not represent a continuing value to the student outside the classroom. For these reasons, access to such software or services generally do not qualify as instructional materials that students can be required to provide or for which instructional materials fees may be charged.

However, recent revisions to title 5, section 59402 allow districts to charge students instructional materials fees for access to instructional materials in electronic form, under certain circumstances. Under this regulation, the definition of "tangible personal property" was amended to verify that electronic data may be considered instructional materials, so long as the student has the ability to use the materials after the class in a manner comparable to the student's ability to use the materials during the class. If students are to be charged for electronic data, the tangible personal property should have a continuing educational value to students. The continuing educational value could be in the form of the electronic course content being equivalent to a textbook, study guide, solutions manual, or test bank that students have access to beyond the class session for which the instructional materials were purchased. Additionally, the student must be able to store and readily print the text, lessons, or problem materials. If the student can store and print materials that are of continuing educational value, charging students for access codes is permissible. (See also **Textbooks**, below.)

On the other hand, the amendments to section 59402 do not permit charging mandatory instructional materials fees for access to the Internet or large searchable databases. In this instance a student would not realistically be able to store and

print every document available through the service and would not be able to conduct searches once the course for which access is provided has ended. (See section 4.11 above.)

Medical Supplies (such as Band-Aids, sterile syringes, and catheters) - see Welding Rods (and other transformed materials) below.

Models for Art Classes - Models for art classes have no continuing value to the student outside of the classroom setting. They are not owned or primarily controlled by individual students. Therefore, students cannot be required to pay for models in art classes.

Performances - Requiring a student to see a play, film, concert, or other performance is not an instructional or other material, and is not covered by the regulations. A district may require a student to see a specified play, film, concert or performance, but in order to generate FTES for the student's attendance at the performance, the district must provide for attendance free of charge to the student. If seeing a performance is accomplished through a field trip, students may be asked to pay for incidental expenses, including entrance fees to the performance, but no student can be denied the right to participate in the field trip due to lack of funds. (See Cal. Code Regs., tit. 5, §§ 55450-55451.)

Photographic Chemicals - Photographic chemicals are a material which can be used by many students, but which usually will have no continuing value to students outside of the classroom setting. Unlike computer paper, photographic chemicals can be tainted through misuse and tend to become used up in the classroom setting. If photographic chemicals are kept separate for each student and are given to students upon completion of the class, students can be required to provide them.

Recording Tape, Video Tape, Floppy Discs, CD-ROMs - Recording tape, video tape, floppy discs and other such reusable recording materials generally have continuing value to students outside of the classroom setting. They are generally available, tangible personal property of continuing value that is owned or controlled by the student.

Sheet Music - See Lab Books, Workbooks, and Sheet Music, above.

Syllabi - See **Instructor-created Materials**, above, and **Textbooks**, below.

Tests (**Required**) - Required tests are instructional materials, and have continuing value to the student, if they are returned. However, in instances where districts are the sole or exclusive provider of tests and neither of the exceptions in title 5, section 59402(c) apply, tests should be provided free.

Under the authority of the "permissive code" (Ed. Code, § 70902(a)) a district may charge for optional tests not required for entry or enrollment into a class.

Please note that this item describes tests that are used to evaluate classroom performance, as opposed to placement tests or assessments. See 4.9 of the Handbook for a discussion of fees for placement tests.

Textbooks - Education Code section 76365 specifically mentions textbooks as materials which have continuing value outside of the classroom. As such, the general rule is that districts may require students to provide their own textbooks. However, these textbooks can't be solely or exclusively available from the district unless the exception of title 5, section 59402(c) applies. If a district is the sole publisher of a textbook, placing copies of the text in local bookstores will not automatically make it generally available.

Until recently, it was not permissible to charge for online access to an electronic version of a textbook. However, title 5, section 59402 was amended in January 2006 to permit this, provided that the student can store and print the textbook for use after the course is over. Of course, as with any other type of instructional material, the district cannot charge for

access to an online textbook if this access is solely or exclusively available from the district, unless one of the exceptions to the "solely and exclusively available" rule are applicable.

Uniforms and Clothing - Education Code section 76365 specifically itemizes clothing as a material which is of continuing value to a student outside of the classroom setting. Students can be required to provide their own uniforms and clothing.

Video Tape - see Recording Tape, Video Tape, Floppy Discs, CD-ROMS, above.

Welding Rods (and other transformed materials) - Welding rods are an example of a "transformed" material which, under most circumstances, have no continuing value outside of the classroom setting after being used. A welding rod is rendered valueless in the process of being used for practice welds. Hence, a district must provide those rods necessary to complete those required objectives of a course which are to be accomplished under the supervision of an instructor during class hours. Extra welding rods for practice or in addition to those needed to complete required objectives may be sold to the student as optional material.

Welding rods and other transformed materials can have continuing value under limited circumstances, however. If welding rods are used to make a project or material that a student will take from the class, the student can be required to provide the rods that will be used for the project. For instance, if the welding rods are used to make an art object and the art object becomes the property of the student, welding rods may be required.

Other examples of transformed materials that are usually rendered valueless after use include chemicals, gasoline, diesel fuel, and medical supplies such as Band-Aids, sterile syringes, and catheters.

Workbooks - See Lab Book, Workbooks, and Sheet Music, above

M 06-11			
[1]			

This Handbook represents the analysis of the State Chancellor's Office regarding the proper application of fees for community college students. This Handbook is in the nature of advice and includes no mandates. It does, however, interpret existing mandates affecting the imposition of student fees. Any district applying this advice may reasonably assume that the Chancellor's Office will not take legal enforcement action against it in the area of student fees.

Questions regarding financial aid procedures should be directed to Tim Bonnel, Student Financial Assistance Programs Coordinator, tbonnel@cccco.edu (916) 445-0104 or Richard Quintana at (916) 324-0925. Questions regarding nonresident tuition and treatment of fee revenue should be directed to Elias Regalado at (916) 445-1165. Other questions should be directed to Ginny Riegel at (415) 550-4792.

Because this material is lengthy and complex, we used underlining to indicate changes in the law, our interpretation of the law, or items that our reviews suggest should be emphasized. Material in boldface is pre-existing information, which we believe deserves particular emphasis.

Districts which do allow students to pay anticipated fee increases on an optional basis should do all of the following:

a. provide students a clear explanation of the circumstances related to the expected fee increase;

b. clearly and unambiguously tell students that they may elect to pay the higher fee which the State is reasonably expected to impose when they initially register or to pay the current legally authorized amount when they register and defer payment of the remainder until after the law is changed;

c. tell students that if they elect to pay the higher amount, any fees in excess of the amount legally authorized for the instruction provided will be refunded to them as expeditiously as possible, without any refund penalty, if the legislation does not take effect;

- d. refrain from asking students eligible for a Board of Governors fee waiver or who are otherwise exempt from the enrollment fee to pay higher fees; and
- e. avoid taking any action to disadvantage students who choose not to pay the higher fees in advance.

[3]

For holders of a TN/TD visa created for business persons and professionals who are citizens of Canada and Mexico under the North American Free Trade Agreement (NAFTA), in <u>Carlson v. Trustees</u>, (1999) USDC Case No. 98-8152 R (Ex), the federal district court found that:

1) The holder of a TN/TD does not have the legal capacity to possess the requisite intent to establish domicile and thus cannot be granted residency status in California; and 2) NAFTA did not intend to allow individuals entering the U.S. under its provisions the ability to establish domicile in the U.S.A. Dismissing the plaintiff's case in its entirety, the court confirmed that opinion as a matter of law on May 24, 1999. Districts were notified shortly thereafter to follow the court's ruling in <u>Carlson</u> and deny California residency for purposes of tuition to students with NAFTA TN/TD visas as a matter of law.

[4]

The listing of exemptions is not intended to be comprehensive, and districts should ensure that their exemption processes include all those students who are entitled to an exemption or waiver.

[5]

- The Chancellor's Office has determined that service in the California National Guard does not constitute being a member of the armed forces of the United States for purposes of Education Code sections 68074 and 68075.
- When the minor takes a class for college credit, the nonresident fee should be charged.
- The original "sunset" date of January 1, 2004, was deleted by Stats. 2003, c. 457.

However, districts which choose to continue exempting low-income students after the requirement to do so has been eliminated should be aware that this is likely to result in a reduction in the dollar amount recoverable from any mandate claim.

[9]

- Title 5, section 54100 provides that districts may charge the regular parking fee to disabled students, but no additional fee may be imposed on students with disabilities for use of designated disabled parking.
- In Legal Opinion <u>E 01-30</u>, we confirmed that section 58510 of title 5 permits a district to hold an election for a student center fee over a period of several consecutive days, not to exceed a maximum of five days.

Individuals are authorized to obtain their own criminal history information from the Department of Justice pursuant to Penal Code section 11105(b)(11) and Penal Code sections 11120 et seq.

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Related Links

Budget and Accounting Manual

Annual Financial and Budget Report (CCFS-311)

Accounting Advisories



Fiscal Standards and Information Section

Budget and Accounting Manual (BAM),

2000 Edition (most current), Effective July 1, 2000, Education Code Section 70901 and 84030 California Code of Regulations, Title 5 Section 59011

Education Code Section 70901 enumerates the responsibilities of the Board of Governors, which includes the establishing, maintaining, revising, and updating the uniform budgeting and accounting structures and procedures for the California Community Colleges. This responsibility is embodied in the California Community Colleges *Budget and Accounting Manual* (BAM), which has been updated as of the year 2000.

BAM Downloading Options (BAM PDF files require Adobe Acrobat Reader version 3.0 or later for viewing)

There are now two ways to download the BAM. The "Download the Complete Manual" option will allow the user to download the entire manual including the appendices as one document. The table of contents and the contents section at the beginning of each chapter is bookmarked (linked) in the complete manual to allow for ease of navigation to specific sections. However, the complete manual is a 521KB sized file and users may have problems downloading the file if they have a slow internet connection.

For those who wish to download individual sections or for those who have a slow internet connection, under the "Download Individual Sections" option each major section is available for downloading as separate files. However, individual sections are not bookmarked.

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• Complete Budget and Accounting Manual, 2000 (PDF, 521KB)

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Each chapter and section can be downloaded separately by selecting the chapter and section listed below.

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Equipment

• Appendix F Subject Index

For questions regarding these instructions, please send an e-mail to Patricia Laurent, $\underline{\text{plaurent@cccco.edu}}.$

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Opinions - Legal Affairs Division

LEGAL OPINIONS

Written opinions are issued by the Legal Affairs Division when the request for review is within the jurisdiction of the Board of Governors and the Chancellor and is deemed to be of systemwide concern or continuing public interest, as opposed to individual complaints and concerns. In general, Legal Affairs only issues written legal opinions for the Board of Governors or in response to a written request (by letter or e-mail) from the state Chancellor's Office or local district officials (such as members of boards of trustees, chancellors, vice chancellors, superintendent/ presidents, vice presidents, and district legal counsel).

M 06-11: 2006 Student Fee Handbook: PDF or Text

(for requesting opinions, see our **Guidelines**)

O 06-10: May a college provide instruction in Spanish, or another language other than English, in some sections of a course to those with limited English proficiency, if other sections of the course are conducted in English? PDF or Text

O 06-08: May a college offer a nursing program under a contract with a hospital where the hospital pays the college for the full cost of instruction and then charges members of the public a fee to recover those costs? PDF or Text

L 06-07: Does a student incarcerated in a state prison qualify as a California resident for purposes of nonresident tuition? Is it appropriate to inquire about the student's residency prior to incarceration. PDF or Text

06-06: May a district that currently provides health services and charges a health services fee under the authority of Education Code section 76355 terminate its health services program if it also stops charging students a health services fee?: PDE or Text

O 06-05: May a district require its part-time faculty to pay for the portion of health benefit premiums not reimbursedby the state pursuant to Ed. Code section 87867? If so, can part-time faculty members be required to pay more than one-half of the total cost if the state allocation covers less than half of the cost for health benefits?: PDF or Text

L 06-04: Response to questions regarding the application of Education Code section 87483 to college administrators: PDF or Text

O 06-03: Questions regarding the procedures which apply to a community college district's amendment of its application for an exemption from the requirements of Education Code section 84362 (Fifty Percent Law): PDF or Text

O 06-02: Is a student who receives a certificate of completion instead of a regular high school diploma eligible for the exemption from nonresident tuition provided by Education Code section 68130.5.

PDF or Text

L06-01: Did an election held at Grossmont College validly authorized a mandatory student center fee and, if so, may the fee revenue be used to pay the salary of a custodian to clean the student center? PDF or Text

L 05-14: May the West Valley Mission CCD use a facility located in the Gavilan CCD to offer Administration of Justice courses under an instructional services agreement with the Santa Clara County Sheriff's Office? PDF or Text

L 05-12: May a community college district charge students for transportation costs associated with voluntary field trips? PDF or Text

E 05-11: Must a "summit conference" being convened by the System Office on Friday October 7, 2005, to discuss future plans for the statewide Student Senate be conducted as a public meeting subject to the requirements of either the Ralph M. Brown Act or the Bagley-Keene Open Meeting Act? PDF or Text

L 05-10: Does Ed. Code § 76361 require a community college district to completely exempt students receiving BOG fee waivers from the mandatory transportation fee authorized by § 76361? PDF or Text

O 05-09: Should a certificate of achievement issued by a high school to a student with exceptional needs be considered evidence of "graduation from a California high school or attainment of the equivalent thereof" for purposes of Education Code § 68130.5 that was enacted through AB 540? PDF or Text

O 05-03: May a community college district adopt a policy which would accord continuing EOPS eligibility to a student with EOPS eligibility who interrupts education due to being called up for military service and returns to college within a short time after completing military service? PDF or Text

O 04-17: Do certain provisions of the Government Code as amended by Assembly Bill 2756 apply to community college districts? PDF or Text

O 04-15: Is the capital outlay fee required for foreign students pursuant to Education Code section 76141 also required for students exempted from nonresident tuition pursuant to Education Code section 68130.5? PDF or Text

O 04-14: May a district drop a student from a course after instruction has begun where the student fails to pay the enrollment fees for the course?

PDF or Text

O 04-13: Admission of high school students over 18 under general admission provisions or as concurrent enrollment students. PDF or Text

O 04-10: District Ability to Count Amounts Paid to Outside Agencies as "Salaries of Classroom Instructors" under the 50% Law: PDF or Text

E 04-02: Effect of Ed. Code section 76061 on eligibility requirements of student body officers: PDF or Text

E 04-01: Credit for second repetition of failed course: PDF or Text

M 04-00.5: Student Fee Handbook: PDF or Text

L 03-28: Single Course Equivalencies: PDF or Text

L 03-27: Los Medanos College Student Union fee: PDF or Text

E 03-26: Fees for Adult Classes: PDF or Text

E 03-25: Instructional Materials Fees in Fee-Based Classes: PDF or Text

L 03-24: Student Withdrawal from Classes: PDF or Text

L 03-22: Field Trip Expenses: PDF or Text

M 03-19: Enrollment Fees for Fall 2003: PDF or Text

L 03-15: Academic Renewal: PDF or Text M 03-09: New requirements regarding implementation of section 508 of the Rehabilitation Act of 1973: PDF or Text M 03-06: Community colleges residency classification eligibility for a student seeking a "graduate degree" under Education Code sections 68074 and 68075: PDF Or Text O 03-03: Must the California high school exit examination be administered by community colleges that grant high school diplomas? PDF or Text L 02-29: Legality of a faculty member collecting royalties from mandatory instructional materials: PDF or Text L 02-28: Verification of equivalency criteria for faculty hires: PDF or Text M 02-22: Closed captioning, video format: PDF or Text M 02-21: Use of hiring pools under section 53021: PDF or Text M 02-20: Minors, summer school credit courses: PDF or Text O 02-16: Degree-applicability of lower level English courses: PDF or Text O 02-15: Legal basis for the fiscal policy of requiring districts to include enrollment fees charged and due from students as revenue: PDF or Text M 02-11: Age Discrimination: physical education requirements: students under age 21: PDF or Text L 02-03: Child Abuse Reporting: PDF or Text E 01-33: Courses, outside district: PDF or Text E 01-22: Follow-up questions re nonresident aliens: PDF or Text L 01-20: Apportionment, noncredit courses, nonresidents: PDF or Text M 01-17: Section 508: New federal regs. re Access: PDF or Text E 01-09: Student Trustees, Eligibility Requirement: PDF or Text O 00-14: Definition of "Salaries of Classroom Instructors" contained in Education Code section 84362, the "Fifty Percent Law.": PDF or Text O 99-25: Apprenticeship programs, reporting, reimbursing: PDF or Text O 99-08: Min. wage rates for Federal and CalWORKS study PDF or Text M 98-17: Minors, admission: PDF or Text M 97-20: Shared Governance, legal advisory: PDF or Text O 97-14: Claiming state apportionment for repeated courses: PDF or Text

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NOTICES/REGULATIONS (Title 5, California Code of Regulations):

• RECENTLY PROMULGATED REGULATIONS

- Effective Jan. 17, 2007: Two sets of Emergency Regulations Implementing SB 361 (Scott): <u>PDF</u> or <u>Text</u>
- Effective Dec, 29, 2006: Graduation Competency Requirements for Associate Degree: <u>PDF</u> or <u>Text</u>

Advisories

2006

06-03: October 10, 2006: AB 540 Litigation - Martinez v. U.C.

Regents, et al.: PDF or Text

06-02: September 27, 2006: Public Records Act Requests for Disclosure of Faculty

Aggregate Grades: PDF or Text

06-01: May 18, 2006: Changes to Nondiscrimination Regulations: PDF or Text

(Attachment to Advisory 06-01 PDF or Text)

2005

05-05: May 19, 2005: Minimum Conditions Compliance Advice: PDF or Text

05-04: May 10, 2005: Distance Education and Open Course Requirements: $\underline{\mathtt{PDF}}$ or $\underline{\mathtt{Text}}$

05 -03: April 4, 2005: Requirements for Claiming Apportionment for Noncredit Courses: PDF or Text

05-02: March 17, 2005: Questions and Answers Regarding Criminal Background Checks for Students in Clinical Settings: PDF or Text

05-01: January 4, 2005: Questions and Answers Regarding Concurrent Enrollment: PDF or Text

2004

04-06: November 18, 2004: Use of Proposition 39 School Bond Proceeds to Pay the Salaries of District Employees: PDF or Text

04-05: September 16, 2004: Use of District Resources for Partisan Purposes: PDF or Text

04-04: September 15, 2004: Nondiscrimination Complaint Processing: PDF or Text

04-03: September 7, 2004: Student Discipline Records: PDF or Text

04-02: August 11, 2004: Enrollment Fee Increase 2004: PDF or Text

04-01.5: March 18, 2004: State Law and Regulations Regarding Instructional Services Agreements: $\underline{\tt PDF}$ or $\underline{\tt Text}$

(See Educational Services Division document: Contract Guide for Instructional

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Services Agreements between College Districts and Public Agencies)

04-01: January 21, 2004: Withdrawal and Repetition: PDF or Text

2003

December 29, 2003: Concurrent Enrollment (SB 338): PDF or Text

2002

January 29, 2002: Fifteenth Advisory on Prop. 209: PDF or Text

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October 19, 2001: Fourteenth Advisory on Prop. 209: PDF or Text

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November 29, 1999: Solomon Amendment Update

AB 540: Nonresident Tuition

Nonresident Tuition Regulations - Implementation and Guidelines

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California Law consists of 29 codes, covering various subject areas, the State Constitution and Statutes. Information presented reflects laws currently in effect. All California Codes have been updated to include the 2006 Statutes.

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Fish and Game Code Food and Agricultural Code

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Public Contract Code Public Resources Code

Public Utilities Code Revenue and Taxation Code

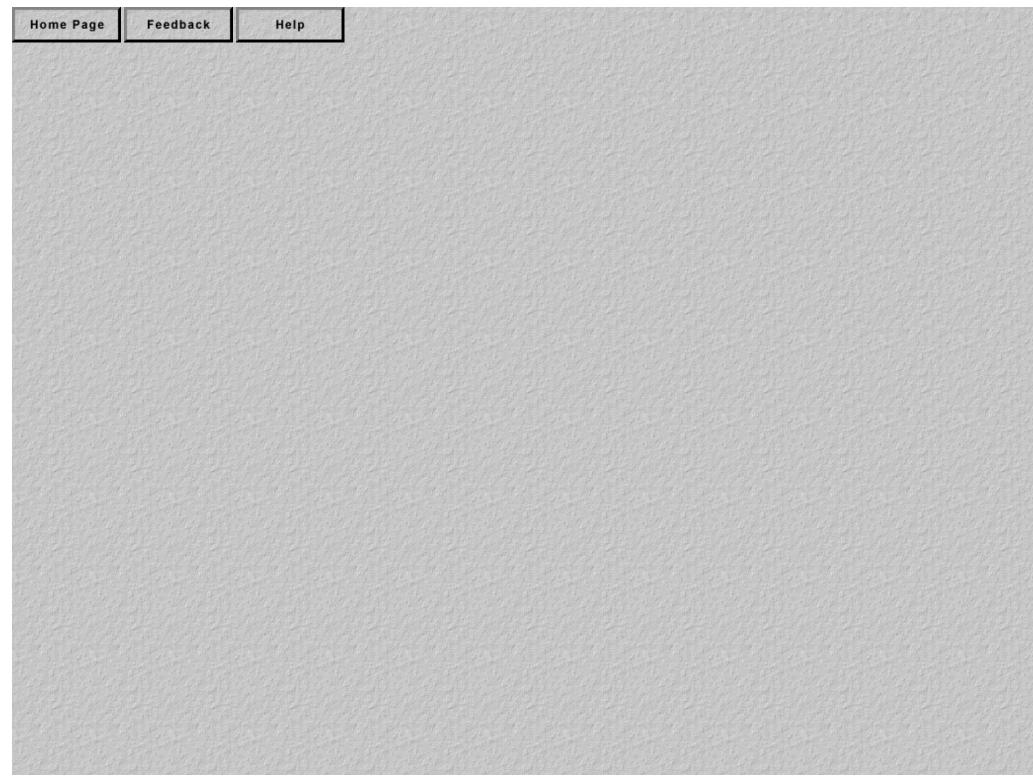
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Vehicle Code Water Code

Welfare and Institutions Code

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Government Auditing Standards (The Yellow Book)

What's New

Government Auditing Standards, January 2007 Revision (GAO-07-162G)

On February 1, 2007, the Comptroller General of the United States issued the 2007 revision of Government Auditing Standards, which supersedes the 2003 revision. The January 2007 version contains the final 2007 revisions to the standards, except for the quality control and peer review sections in chapter 3. Concurrent with the electronic issuance of this revision of Government Auditing Standards, GAO is exposing for comment redrafted sections on quality control and peer review in response to the wide range of comments we received on those sections. The printed version of the complete 2007 revision of Government Auditing Standards will be available after the quality assurance and peer review sections are finalized and incorporated into the standards. (Current anticipated time frame is late spring of 2007.)

The effective date for the 2007 revision of Government Auditing Standards is for financial audits and attestation engagements for periods beginning on or after January 1, 2008, and for performance audits beginning on or after January 1, 2008. Early implementation is permissible and encouraged.

Certain standards issued by the AICPA's Auditing Standards Board (ASB) have earlier effective dates. For financial statement audits performed under GAGAS, the effective dates of those new ASB standards will apply. Until the 2007 GAGAS revisions become effective, auditors should adopt the terminology and definitions in SAS No. 112 when reporting on internal control deficiencies and include in their reports material weaknesses and other significant deficiencies in order to promote consistency in communicating and reporting on internal control deficiencies. Notice announcing issuance of the January 2007 revision

Government Auditing Standards, January 2007 Revision (GAO-07-162G) [Only available in electronic format.] PDF version Text accessible version

Summary of Major Changes GAO has issued a listing of major changes in the January 2007 revisions of Government Auditing Standards.

- **Reports and Testimony**
- **Legal Products**
- **Topic Collections**
- From the Comptroller General
- **Careers at GAO**
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- FraudNET (Report Fraud, Waste and Abuse)

This listing highlights key revisions overall and related to (1) ethics and independence, (2) professional judgment and competence, (3) all types of GAGAS audits and attestation engagements, (4) internal auditors, (5) financial audits, (6) attestation engagements, (7) performance audits, and (8) guidance material. The listing of changes is intended to assist government audit organizations and practitioners in updating their related policies and procedures for conducting government audits. Summary of Major Changes

Comprehensive Slide Set GAO is also issuing a comprehensive set of annotated slides to assist the government audit community in developing training on the January 2007 revision of Government Auditing Standards. In addition to highlighting the major revisions, the slides contain information about the process used to issue the 2007 Yellow Book, the reasons for the changes, what the changes will mean for government auditors, and effective dates. The slides also outline proposed revisions to quality control and peer review standards, which will be finalized later this spring. The slides should be used in conjunction with the summary of major changes and the complete text of the 2007 revision. Electronic versions of these documents can be accessed above. Full-page slides Annotated version with speaker's notes

When the final 2007 Revision of Government Auditing Standards is issued, GAO will also be issuing a Professional Requirements Tool. The tool will provide a listing of the professional responsibilities from the 2007 Revision that are specifically identified in the standards by the words "must" and "should."

For further information, please call Jeanette Franzel at (202) 512-9471 or Michael Hrapsky at (202) 512-9535, or e-mail yellowbook@gao.gov.

Government Auditing Standards: Proposed Revisions to Standards for Quality Control and Assurance and Peer Review (GAO-07-431G)

GAO invites your comments on proposed revisions to the quality control and assurance section of the 2003 revision of *Government Auditing Standards*. The proposed changes to the quality control and assurance and peer review section include standards relating to an audit organization's system of quality control and external peer reviews. The finalized version will replace the quality control and assurance section (paragraphs 3.49 through 3.54) of chapter 3 in the 2003 revision of Government Auditing Standards.

We request comments on the draft revisions from audit officials and financial management at all levels of government, the public accounting profession, academia, professional organizations, public interest groups, and other interested parties. To assist you in developing your comments, specific questions are included in enclosure I to this letter. When providing comments, please identify the question numbers and/or specific paragraph

numbers from the proposed revisions and provide a rationale for your answers. Please send your comments electronically to yellowbook@gao.gov no later than March 30, 2007.

Proposed Revisions to Standards for Quality Control and Assurance and Peer Review

Contact information

Government Auditing Standards -- 2003

Government Auditing Standards (2003 Revision), GAO-03-673G, June 2003. This revision supersedes the 1994 revision, including Amendments 1 through 3. The new standards became effective for financial audits and attestation engagements of periods ending on or after January 1, 2004, and for performance audits beginning on or after January 1, 2004.

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- The Comptroller General has issued a technical amendment to the CPE requirements contained in the 2003 revision of *Government Auditing* Standards (April 2005)
 - Listing of major changes from the previous version of Government Auditing Standards
 - Previous Version of Government Auditing Standards (1994 Revision and Amendments Nos. 1 through 3)
- Contact information

Related Guidance and Other Materials

Professional Standards Updates summarize recently-issued standards of major auditing and accounting standard-setting bodies in order to inform GAO staff and other users of important changes to professional requirements. These Updates, however do not establish new professional standards and do not reflect GAO official views on these requirements. Users should refer to the original, authoritative standards for purposes of implementing the standards.

The Comptroller General of the United States has issued temporary exemptions from certain provisions of the 2003 revision of *Government Auditing Standards* (GAO-03-763G, June 2003) for auditors and audit organizations impacted by Hurricanes Katrina and Rita and has provided additional guidance to auditors to protect the public interest related to government spending of public funds in the relief effort. (December 15, 2005)

Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education (GAO-05-568G, April 2005) This guidance document, which replaces the April 1991 document entitled *Interpretation of Continuing Education and Training Requirements*, is effective for CPE measurement periods beginning on or after June 30, 2005, with earlier adoption encouraged. (Note: This document is only available electronically.)

- Listing of Major Changes
- Interpretation of Continuing Education and Training Requirements (April 1991)

Guidance for entities that follow PCAOB and Yellow Book standards: Guidance on Complying with *Government Auditing Standards* Reporting Requirements for the Report on Internal Control for Audits of Certain Entities Subject to the Requirements of the Sarbanes-Oxley Act of 2000 and *Government Auditing Standards* (May 2005)

Government Auditing Standards: Answers to Independence Questions (GAO-02-870G, July 2002) Printed copies of this document can be ordered through the GAO document distribution center at 202-512-6000.

The paragraph references in Government Auditing Standards:
 Answers to Independence Standard Questions are based on the
 January 2002 Government Auditing Standards: Amendment No. 3
 Independence (GAO-02-388G). In June 2003, GAO issued
 Government Auditing Standards: 2003 Revision (GAO-03-673G).
 This document provides corresponding paragraph references in the 2003 revision.

How to Avoid a Substandard Audit: Suggestions for Procuring an Audit (National Intergovernmental Audit Forum, May 1988)

Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1, November 1999) [Available only in PDF version]

Internal Control Management and Evaluation Tool (GAO-01-1008G, August 2001)

Assessing the Reliability of Computer-Processed Data (GAO-03-273G,

October 2002) This document provides useful guidance in implementing the data reliability requirements in GAGAS. Specifically, it provides a risk-based framework for data reliability assessments that can be geared to the specific circumstances of each audit. It does not carry the authoritative status of a standard, and is intended to provide helpful guidance in designing and implementing audits.

Advisory Council on Government Auditing Standards

List of Advisory Council Members

GAO Advisories Related to Government Auditing Standards

- GAO Issues Summary of Major Changes and Comprehensive Slide Presentation (April 2007)
- The January 2007 Revision of Government Auditing Standards Issued (January 2007)
- GAO Comment Letters on Recent Exposure Drafts Issued by Other Auditing Standard Setting Organizations
- Contact information
- Last updated 4/20/2007

About Government Auditing Standards

Government Auditing Standards (the "Yellow Book") contains standards for audits of government organizations, programs, activities, and functions, and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations. These standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy. These standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of professional and meaningful audit reports.

To help ensure that *Government Auditing Standards* (the "Yellow Book") continues to meet the needs of the audit community and the public it serves, the Comptroller General of the United States appointed the Advisory Council on Government Auditing Standards to review the standards and recommend necessary changes. The Council includes experts in financial and performance auditing drawn from all levels of government, private enterprise, public accounting, and academia. In February 1997, the Advisory Council on Government Auditing Standards endorsed a revised approach of issuing individual standards issue-by-issue. The approach will continue the practice of exposing all revisions for public comment as the Council reaches consensus on a particular issue. The Council will consider those comments in making recommendations to the Comptroller General of the United States in finalizing revisions to the standards. When the Comptroller General issues a revised standard, the electronic version of *Government Auditing Standards* will be immediately codified, with a periodic codification of the standards into

the printed book format. This revised approach was adopted in order to provide more timely revision of the standards for emerging audit issues.

Contact Information

For technical or practice questions regarding *Government Auditing Standards* call:

Michael C. Hrapsky
Senior Project Manager,
Government Auditing Standards
U.S. Government Accountability Office
(202) 512-9535

For technical or practice questions directly related to *Government Auditing Standards*, our e-mail address is: yellowbook@gao.gov

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AICPA Highlights

This site will be unavailable on Saturday, May 5, 2007 from 7am to 10pm EDT due to routine maintenance. We apologize for any inconvenience this may cause.

IRS Extends Tax Filing Deadlines

Taxpayers affected by **Norâ**€**™easter** and **Virginia Tech** shooting granted filing extensions. Learn More>>

 American Adults Still Expect to Retire With a Pension

Nearly half of all non-retired adult Americans expect to retire with a pension, according to a new poll conducted by Harris Interactive and the AICPA. Learn More>>

 AICPA Supports House Resolution on April as <u>Financial Literacy Month</u>

Raising awareness about the critical need for financial education in the United States, this resolution encourages government, as well as the private sector, to collaborate on this important public service issue. Learn More>>

 Home Ownership Out of Reach for Many Adult Americans

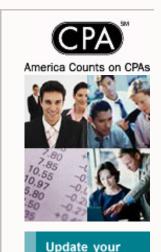
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The mission of the Governmental Accounting Standards Board is to establish and improve standards of state and local governmental accounting and financial reporting that will result in useful information for users of financial reports and guide and educate the public, including issuers, auditors, and users of those financial reports.

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- GASB Adds Project to Assist Governments That Choose to Report Performance Information—NEW (04/06/07)
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 - Plain-language article—NEW (04/25/07)
- GASB Proposes Standards for Reporting Land and Other Real Estate Held as Investments—NEW (03/23/07)
 - News Release
 - Exposure Draft (Comment Deadline: June 29, 2007)
- GASB Issues Request for Research Proposals—NEW (03/06/07)
- Position Available: <u>Assistant Project Manager, Constituent</u> Relations—NEW (02/15/07)
- FAF Board of Trustees Confirms GASB Jurisdictional Authority with Respect to Service Efforts and Accomplishments
- GASB Fact Sheets
- GASB Project Pages—UPDATED (04/18/07)

- Second-Third 2007 Technical Plan
 - Full Plan—NEW (04/19/07)
- GASB White Paper: Why Governmental Accounting and Financial Reporting Is—and Should Be—Different
- 2007 GASB Support Fee Program—NEW (02/23/07)
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OMB Circulars in Numerical Sequence

OMB Circular A-1, System of Circulars and Bulletins to Executive Departments and Establishments (08/07/1952)

OMB Circular A-4, Regulatory Analysis (09/17/2003) HTML or PDF (435k)

OMB Circular A-11, Preparation, Submission and Execution of the Budget (6/30/06)

OMB Circular A-16, Coordination of Geographic Information, and Related Spatial Data Activities (08/19/2002)

OMB Circular A-19, Legislative Coordination and Clearance (09/20/1979)

OMB Circular A-21, Cost Principles for Educational Institutions (05/10/2004) HTML or PDF (263k), Relocated to 2 CFR, Part 220 (384k)

OMB Circular A-25, Transmittal Memorandum #1, User Charges (07/08/1993)

OMB Circular A-34, Instructions on Budget Execution (Rescinded 6/27/2002; superceded by OMB Circular No. A-11, Part 4) (1,034k)

OMB Circular A-45, Rental and Construction of Government Quarters (10/20/1993)

OMB Circular A-50, Audit Followup (09/29/1982)

OMB Circular A-76, Performance of Commercial Activities (05/29/2003) including

changes made by OMB Memorandum M-07-02 (10/31/2006) (51k) and a technical correction made by OMB Memorandum M-03-20 (08/15/2003) HTML or PDF (559k)

Note: Please see OMB Memoranda M-04-12 (36k), *Performance Periods in Public-Private Competitions* (April 30, 2004), and M-06-13 (42k), *Competitive Sourcing under Section 842(a) of P.L. 109-115* (April 24, 2006), when applying the following provisions of OMB Circular A-76: Attachment B, Paragraphs C.1.a, C.1.c, D.3.a(7), and D.5.b(3); Attachment C, Section D.

-- Preamble to the revision to OMB Circular No. A-76, "Performance of Commercial Activities" (05/29/03) (116k)

Implementing the FAIR Act:

- -- Transmittal Memorandum #20 (06/14/1999) in HTML, WPD or PDF (85k)
- -- Transmittal Memorandum #21 (04/27/2000) in HTML
- -- Transmittal Memorandum #22 (08/31/2000) in PDF (8k)
- -- Transmittal Memorandum #23 (03/14/2001) in PDF (8k)
- -- Transmittal Memorandum #24 (02/27/2002) in PDF (8k)
- -- Transmittal Memorandum #25 (03/14/2003) in HTML
- --- Proposed Revised OMB Circular A-76 of November 14, 2002, in PDF (926k) or Word (for agency and public comment)
- -- Preamble to the proposed revision to OMB Circular No. A-76, "Performance of Commercial Activities" (11/19/02) (106k)

Docket of Comments to Proposed Revised OMB Circular A-76

- -- List of Emails received from Agency and Public
- -- List of faxes received from Agency and Public

Historical Circular A-76, Performance of Commercial Activities, (08/04/1983) (Revised 06/14/1999) in HTML, WPD or PDF (29k)

Supplemental Handbook in HTML, WPD or PDF (968k) (04/01/1996) (Revised 06/14/1999)

OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments (05/10/2004) HTML or PDF (199k), Relocated to 2 CFR, Part 225 (362k)

OMB Circular A-89, Catalog of Federal Domestic Assistance (08/17/1984)

OMB Circular A-94, "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs" (10/29/1992):

- -- Text of OMB Circular No. A-94 (10/29/1992) HTML or PDF (269k)
- -- Appendix C: Discount Rates for Cost-Effectiveness, Lease-Purchase, and Related Analyses for OMB Circular No. A-94 (01/02/2007)
- -- Table of Past Years Discount Rates from Appendix C of OMB Circular No. A-94 (11/27/2006) (32k)
- -- Memorandum M-07-05, 2006 Discount Rates for OMB Circular No. A-94 (01/02/2007) (38k)

OMB Circular A-97, Rules and Regulations Permitting Federal Agencies to Provide Specialized or Technical Services to State and Local Units of Government Under Title III of the Intergovernmental Cooperation Act of 1968 (08/29/1969)

-- Transmittal Memorandum #1, Specialized or Technical Services for State and Local Governments (03/27/1981)

OMB Circular A-102, Grants and Cooperative Agreements With State and Local Governments (10/07/1994) (further amended 08/29/1997) HTML or PDF (43k)

- -- Where is the Grants Management Common Rule?
- -- Where are the Attachments to A-102?
- -- Where have Agencies Codified the A-102 Common Rule?

OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations (11/19/1993) (further amended 09/30/1999, Relocated to 2 CFR, Part 215 (243k))

- -- Where are the Attachments to A-110?
- -- Where have Agencies Codified A-110?

OMB Circular A-119, Transmittal Memorandum, Federal Participation in the Development and Use of Voluntary Standards (02/10/1998)

OMB Circular A-122, Cost Principles for Non-Profit Organizations (05/10/2004) HTML or PDF (220k), Relocated to 2 CFR, Part 230 (235k)

- -- How are cognizant agencies determined for indirect costs?
- -- Where is the updated OMB list?

OMB Circular A-123,

- Management's Responsibility for Internal Control (Effective beginning with Fiscal Year 2006) (Revised 12/21/2004) HTML or PDF (274k)
- -- Appendix A Implementation Plans (08/01/2005) (43k)
- -- Appendix A Implementation Guide (07/2005) (555k)
- -- Appendix A Frequently Asked Questions (04/13/2006) (93k)
- -- Issuance of Revised Appendix B to OMB Circular A-123 (04/28/2006) (286k)
- -- Management's Accountability and Control (Effective through Fiscal Year 2005) (Revised 06/21/1995)
- -- Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments (08/10/2006) (236k)

OMB Circular A-125, was rescinded and replaced by the Prompt Pay regulations at 5 CFR Part 1315

OMB Circular A-126, Improving the Management and Use of Government Aircraft (05/22/1992)

- -- Attachment A
- -- Attachment B

OMB Circular A-127, Financial Management Systems (07/23/1993)

- -- Transmittal Memorandum #3 (12/01/2004)
- -- Transmittal Memorandum #2 (06/10/1999)

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OMB Circular A-131, Value Engineering (05/21/1993)

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (06/24/1997) (includes revisions published in *Federal Register* 06/27/2003) HTML or PDF (127k)

- -- March 2006 Compliance Supplement
- -- Appendix A: Data Collection Form (Form SF-SAC)
- -- Appendix B: 2005 OMB Compliance Supplement Update
- -- March 2004 Compliance Supplement

OMB Circular A-134, Financial Accounting Principles and Standards (05/20/1993)

OMB Circular A-135, Management of Federal Advisory Committees (10/05/1994)

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- OPEB Article: Coming to Grips with Other Post-Employment Benefits (pdf)
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