

ADMINISTRATIVE REVIEW/FISCAL HEALTH ANALYSIS

**SOLANO COMMUNITY COLLEGE DISTRICT
DECEMBER 17, 2008**



**EDUCATION MANAGEMENT and ASSISTANCE CORPORATION
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FOREWORD

EdMAC Background

The Education Management and Assistance Corporation (EdMAC) was formed in July 2007, as a service provider for local educational agencies. Since its inception, EdMAC has provided management assistance to a number of Community Colleges, K-12 School Districts, and County Offices of Education.

EdMAC's President/CEO is Thomas E. Henry. Mr. Henry served as CEO of the State's Fiscal Crisis and Management Assistance Team (FCMAT) for 15 years. He assisted with the initial formation of FCMAT, and with the enabling legislation AB 1200 in 1992. Since 1992, FCMAT has been engaged to perform nearly 700 reviews for local educational agencies, including School Districts, County Offices of Education, Charter Schools, and Community Colleges.

Mr. Henry is a former School District and County Office of Education Administrator. He recently served as the State Appointed Special Trustee for Compton Community College District, and is currently the State Appointed Special Trustee for the Lassen Community College District. Mr. Henry sits on the Governor's Education Excellence Committee and is a speaker at national and state conferences.

Study Team

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Study Guidelines

EdMAC's President/CEO visited the Solano Community College District (SCCD) October 13, 17, 24, 29, 31, November 6-7, 10, 14, 18, 20-21, and December 2, 11, 2008 to conduct interviews, review documents, make observations, and address the scope of the study. This report is the result of those activities. It is important for the reader to understand that this study is an administrative review of policies, practices, and procedures. It is not an evaluation of individuals. The study is intended to provide the SCCD with best practices in areas needing attention. The scope of study, as set forth in the District's contract with EdMAC, provides for the following: (Please note, the scope of study topic areas below have been repositioned from the EdMAC's contract order for flow of reading and appropriate sequence).

- An Administrative Review of the District's Internal Controls
- A Review of Purchasing Policies and Practices
- A Review of Inventory Policies and Practices
- An Examination of the Receipt, Disbursement, and Use of Measure G Bond Funds (A judgmental sampling of ten transactions)
- A Review or Completion of Chancellor's Office Self-Assessment Fiscal Health Check List
- An Examination of the Status of Various Report Findings
- Interviews with Key Managers and Staff Members
- Issuance of a Report with Findings and Recommendations

INTRODUCTION

Solano Community College was established in 1945 as Vallejo Junior College. The College was part of the Vallejo Unified School District until 1967, when the College became the Solano Community College District. The 192-acre campus, centrally located just off Interstate 80, was completed in 1971, and opened with 5,000 students. Since then, facilities, programs, staff, and services have expanded to meet the growing needs of a growing county.

Solano Community College is part of California's Public Community College System of 109 campuses in 72 districts across the state. The College's service area encompasses the communities of Benicia, Dixon, Fairfield, Suisun, Vacaville, Vallejo, and Travis Air Force Base, as well as Winters in Yolo County. Many graduates of the area's 16 public high schools and three private schools take advantage of the educational opportunities offered by Solano Community College.

SCCD's classes are held during two semesters each year (spring and fall), and two summer sessions. The Weekend College Program offers expanded learning opportunities. Flexible scheduling, designed for student's convenience, includes day, evening, and Saturday classes. Classes are held on and off the campus, and include television and online courses, as well as home and travel study. Short-term classes, open entry, open-exit formats, and special interest workshops and seminars add to this scheduling flexibility.

With the current student population of over 12,000 almost evenly divided between day and evening attendance, the Solano Community College campus is alive at all hours, offering academic study, and occupational training to all area residents.

EXECUTIVE SUMMARY

The Governing Board and Superintendent/President of Solano Community College requested EdMAC to review the District's internal controls, examine external reports, and perform a fiscal health analysis. The scope of the study included:

- An Administrative Review of the District's Internal Controls
- A Review of Purchasing Policies and Practices
- A Review of Inventory Policies and Practices
- An Examination of the Receipt, Disbursement, and Use of Measure G Bond Funds (A judgmental sampling of ten transactions)
- A Review or Completion of Chancellor's Office Self Assessment Fiscal Health Check List
- An Examination of the Status of Various Report Findings
- Interviews with Key Managers and Staff Members
- Issuance of a Report with Findings and Recommendations

EdMAC Narrative

EdMAC provided an independent external review of these areas and was neither restricted nor influenced in any way in the review process or report writing. The report findings represent a review in time and best represents the reviewer's analysis at a specific point in time. The recommendations are to be considered within the context of other reports, changing environment, and SCCD's own assessment of these areas. The recommendations are intended to assist SCCD and its administration as they move the College forward in a collegial and professional manner.

During the site visit, the reviewer found an atmosphere of uncertainty, unrest, and genuine concern for the College. Employees appeared to have an understanding of their job responsibilities, but expressed concern about their future, and the future of the College. Some employees felt that their job description did not accurately reflect their day-to-day duties and responsibilities. EdMAC found the morale of many of the staff, faculty, administrators, and students interviewed to be very low.

Leadership concerns over time, Board micro-management, lack of timely/accurate information and uncertainties relating to the fiscal health of the SCCD were common themes in many of the interviews. Several of the employees, some Board members, and students interviewed expressed concerns over Board micro-management, made allegations of Brown Act violations, and expressed doubts about whether or not the Board could effectively govern the District.

Employees and others expressed concern that the Governing Board is overly involved in daily administrative operations. Interviewees at all levels expressed a lack of trust and confidence. The perception of ineffective communication, lack of trust, and inaccuracy of information is impacting the District negatively.

Internal Controls

Internal controls are the basis of sound fiscal management and practices within a district. SCCD's external audit report, as well as this report, point to a number of internal controls that need immediate attention. Employees in fiscal services, warehouse/inventory, and purchasing need to be made aware of internal control policies and procedures. Many individuals expressed concerns and a lack of confidence in whether SCCD had effective and efficient internal controls to protect the assets of the District.

Staff development and training is a prerequisite to understanding and implementing strong internal controls. The Fiscal Services Department either lacks written desk manuals, or they are not readily accessible. Some employees were also not aware of Board policies addressing internal controls. These operational types of manuals can provide continuity, legal authority, and proper procedural steps for employees. A common response to EdMAC regarding internal controls was that employees were not aware of Board policies on the subject, and if desk manuals existed, they were unaware of their location.

Purchasing/Inventory Policies and Practices

EdMAC examined appropriate and updated Board policies addressing purchasing and inventory. The specific policies on purchasing (3220 - 3230), and fixed assets inventory (3300) were well written, and last updated in March 2007.

Some key employees responsible for purchasing and inventory practices were not aware of the District purchasing and inventory policies. Although it was reported to EdMAC that the District had purchasing and inventory procedural manuals, upon request by EdMAC, no manual could be located. Of greatest concern to EdMAC, relative to purchasing practices, was the evidence of a Public Contract Code violation. Also, basic inventory regulations were not being followed by the District.

Measure G Bond Fund

EdMAC discovered some questionable transactions relative to the Measure G Bond Fund. There are transactions and practices that EdMAC believes require District Bond Counsel review. Transfers from the Bond Fund to the General Fund are highly unusual in public agencies.

On one occasion, the District transferred \$1,045,105 from the Bond Fund to the General Fund. This transfer was not reviewed by the District's Bond Counsel, nor did EdMAC find a required Board resolution reflecting Board approval of this transfer.

It was reported that the District is experiencing significant Bond Project “scope creep” as a result of change orders. This practice needs careful review and control. The District’s Bond Counsel needs to provide a legal opinion on certain Bond expenditures to determine whether they are consistent with the District’s Bond Measure, and a Board approved project list.

Examination of Various Reports

There were no “material weakness(es)” identified in the June 30, 2007 external audit report. The audit report did list a number of findings and recommendations requiring attention. Most troubling are repeat recommendations from past audit reports.

It was noted that “bank reconciliations” are not being addressed regularly, and the safeguarding of assets relative to internal controls need attention. The District was not prepared for the external auditors regarding the audit report for the year ended June 30, 2008.

The District commissioned a “Cash Handling Policies and Procedures” review in December 2007. It was reported to EdMAC that this review was triggered by the District’s prior external audit report findings relative to internal controls. There is little evidence that the report was ever provided to the District Board of Trustees for review and comment. Members of the District Cabinet informed EdMAC that the report was never reviewed at the Cabinet level. There is no indication that the report recommendations have been formally prioritized or implemented.

Due to the uncertainty expressed to EdMAC, regarding the revenue and expenditure side of the District’s budget, one of EdMAC’s consultants assisted the District with reconciliation and review of the budget report. EdMAC’s consultant expressed concern that the Governmental Accounting Standards Board (GASB) 34, relative to restricted and unrestricted dollars being separated, was not reflected in the District budget. EdMAC concluded that SCCD is in an operating deficit, with a need to increase revenue and/or cut expenditures commensurate with the proposed State budget cuts, and District operating deficit.

There are approximately ten (10) SCCD fiscal reports that are either late, or currently due to the State Chancellor’s Office. (Appendix A). Most notable is the late submission of the adopted budget. Due to the State budget impasse, the State Chancellor’s System Office extended this deadline to October 15th. At the time EdMAC was interviewing employees at the District; SCCD had not fully closed its fiscal books, had not adopted a final budget, and was not prepared for the external auditors.

EdMAC believes SCCD has immediate and serious issues relative to the Accrediting Commission for Community and Junior Colleges (ACCJC) standards. EdMAC did not find a sense of urgency at the District relative to the ACCJC January 31, 2008 letter addressed to the Superintendent/President. It appeared that other matters were taking precedence over the accrediting status and deficiencies noted by ACCJC. EdMAC suggests that this matter (accreditation) is the single most important factor facing the District, both from a short term and a long term impact.

Fiscal Health Check List

EdMAC supplemented the Chancellor's Office's Self Assessment Fiscal Health Check List with additional criterion. Out of seventeen (17) extensive fiscal health elements, the District has thirteen (13) rated as not acceptable. This rating indicates SCCD has a moderate to high level of risk relative to its fiscal health.

Interviews with Key Managers and Staff Members

EdMAC interviewed numerous individuals associated with the District, including students, faculty, staff, Board, administration, consultants, and past employees. This report, and the following comments, represents conclusions drawn from the interviews, documents read, and observations made.

EdMAC believes that leadership, adequate staffing, and organizational stability needs focused attention by the District. Effective leadership at both the Governance and CIO level, adequate staffing, and proper training are characteristic of any healthy institution.

EdMAC found leadership uncertainty at the Board and administrative levels. The immediate past SCCD Superintendent/President resigned unexpectedly at the October 2008 Board meeting. This took the institution by surprise, and required the Board to appoint an interim Superintendent/President.

There are a number of vacancies within the District. Many are filled with interim staff, and consultants. This pattern can create uncertainty and lack of stability and accountability, especially in leadership positions.

EdMAC found evidence of individuals working as independent contractors who appeared to be functioning as employees. The District needs to examine its use of independent contractors in relationship to the IRS "common law" factors.

In addition, EdMAC found the District does not utilize evaluations of employees effectively. Evidence indicates that evaluations of the Senior Administration have not been conducted in a timely manner. Evaluations need to be performed regularly for purposes of accountability, improvement, and recognition of effective performance.

In spite of these conditions, EdMAC observed a number of dedicated and extremely hard working individuals. At times during the site visits, the work load on certain desks appeared to be overwhelming and extremely demanding. This dedication and loyalty to the District is to be commended.

It must be noted that in a number of operational levels, the current state of organizational effectiveness at SCCD is in jeopardy. EdMAC finds an institution that has significant systemic issues. In addition, it appears to EdMAC that this condition developed over a significant period of time. Thus, it is EdMAC's opinion that no single individual is responsible for the current condition. Operational areas (academic, fiscal, personnel, facilities, and governance/leadership) interrelate. Each area, due to the systemic nature, can, and will, impact the other areas. There has been a collapse of the basic infrastructure of the District, which will require effective governance and leadership to resolve.

ADMINISTRATIVE REVIEW of DISTRICT INTERNAL CONTROLS

Authority/Standard

A review of Solano Community College's internal controls included a review of District policies, external audits, practices, independent review of documents, and observations. EdMAC looked at the internal control system and the staff's capacity to provide quality internal controls. It also evaluated the internal controls and current procedures of the College to determine if the level of fiscal accountability was appropriate.

Internal controls are the measures a district establishes to encourage adherence to policies and procedures, promote efficiency and effectiveness, safeguard assets, and ensure reliability of financial data for policy and decision makers of the district. A district's strong internal control system includes both administrative and accounting controls.

Administrative controls include adequate written policies, organizational structure, job descriptions and defined duties, proper employee training, procedures manuals, and reliable information systems.

Accounting control procedures include adherence to generally accepted accounting principles, proper authorization of transactions, separation of duties, and limited access to assets.

EdMAC Narrative

EdMAC found adequate and reasonably updated Board policies including: Budget Control/Transfers 3015, Revolving Cash and Clearing Accounts 3080, Fiscal Management 3020, Authority to Purchase 3220, and Fixed Assets Inventory 3300. These policies address directly, and indirectly, proper internal controls. In the sampling, however, there is evidence that not all personnel responsible for internal controls are aware of the policies and/or desk manuals relative to internal controls. There is also evidence of internal control weaknesses throughout the institution.

For example, the SCCD independent auditor's report ending June 30, 2007, cites "internal controls" as a finding, and provides SCCD recommendations to correct the finding. This particular finding was also brought forward in the June 2007 report as a finding from the prior year's report.

On December 19, 2007, at the request of the Vice President of Administrative and Business Services, the SCCD Board approved a contract to conduct a "Cash Handling Policies and Procedures" review. Evidence suggests that, in part, this review was triggered by SCCD's external audit report findings relative to internal controls. This particular report lists areas of concern regarding cash handling and the internal controls associated with the handling and recording of cash and securities.

EdMAC found the report to be helpful, and accurate in stating the status of internal controls within the District. There is no evidence the report was ever provided or presented to the SCCD Board of Trustees. It does not appear the report was ever presented at Cabinet for review and implementation discussion. There is little evidence that the report recommendations have been prioritized or implemented at any level. It was reported to EdMAC that there were going to be “mass meetings” in the month of November to address the report findings. These meetings did not take place.

There is evidence that the SCCD has an updated Board policy (3220) that is specific to the authority to purchase. The policy addresses Section 20651 of the California Public Contract Code relative to “bid threshold” and the purchase of equipment. The prevailing practice for most public agencies is that three quotations are obtained before purchasing items that are valued under the “bid threshold”.

There is little evidence to suggest that SCCD is following either its policy or the Public Contract Code on bidding. There is evidence that SCCD attempts to gain three (3) oral/written quotations on equipment items under the threshold, but it does not consistently follow this standard.

Public Contract Code 20651 (a) reads in part, “The Governing Board of any community college district shall let any contracts involving an expenditure of more than fifty thousand dollars (\$50,000) for the purchase of equipment. The contract shall be let to the lowest responsible bidder.” The Board of Governors of the California Community Colleges System shall annually adjust the dollar amounts specified in the Public Contract Code relative to “bid threshold” on the purchase of equipment. As of January 1, 2008, the “bid threshold” set by the Chancellor’s office is \$72,400.00.

There is evidence SCCD has not followed these legal standards. Individuals responsible for purchasing were aware there was a threshold, but uncertain of the dollar amount.

For example, the District decided to buy a “Boom Truck” earlier this year. Victory Commercial Truck Center provided two formal price and specification comparisons in February/March 2008. Due to the ultimate \$82,827.66 price of the “Boom Truck,” it appears that this purchase should have been made under Public Contract Code Section 20651.

EdMAC examined an isolated issue relative to conflict of interest matters. On June 10, 2008, Requisition Number 272809 was issued. This requisition listed Lowe’s Companies, Inc. as the suggested vendor. The vendor contact person was a Board member. The requisition had a statement directing personnel to contact the Trustee member at Lowe’s to purchase the items.

Ultimately, this requisition was resubmitted as Requisition Number 273888 on October 6, 2008, which listed fewer items to purchase. There was a note on this requisition that the Trustee member in question no longer worked at Lowe’s.

It was noted by EdMAC that these items were purchased with monies from the Measure G Bond Fund. (Please note EdMAC's comments regarding the use of Bond Funds under that section within this report).

Even though the earlier requisition was amended several months later, the listing of an elected Trustee member as the vendor contact person, and notation directing staff to purchase the items from the Trustee member is a significant breakdown relative to internal controls and conflict of interest laws.

EdMAC Findings

- SCCD Board Policy regarding internal controls is updated, reflective of statutory authority, and is posted on the SCCD's Website under the "Policies and Procedures" link.
- Several individuals in charge of proper internal control procedures were not aware of Board Policies, or whether there were procedural manuals that addressed these standards. Because of this lack of awareness and inadequate staff development, SCCD Board Policies regarding internal controls are not routinely implemented.
- SCCD's last two independent auditor reports cited findings needing correction relative to internal controls.
- The "Cash Handling Policies and Procedures" review commissioned by SCCD lists areas of concern regarding cash handling and the internal controls associated with the handling and recording of cash and securities. There is no evidence that this important report was ever provided or presented to the SCCD Board of Trustees. There are some isolated attempts at addressing internal controls, but no evidence that the report's recommendations have been prioritized or implemented at any level. For instance, the current Interim Director of Fiscal Services has never seen the report.
- There is evidence SCCD attempts to obtain three (3) oral/written quotations on equipment items under the "bid threshold," but it does not consistently follow this standard.
- There is evidence SCCD does not consistently follow the requirements of the Public Contract Code (PCC) regarding the purchasing of equipment above the PCC threshold of \$72,400.00.
 - ✓ SCCD purchased a "Boom Truck" in March 2008, for \$82,827.66 without adhering to Public Contract Code 20651 (a) requiring a formal sealed bid process.
- There is direct evidence that a SCCD purchase requisition made out to Lowe's Companies, Inc. for various items was directed to an employee of Lowe's who was, at the time, a seated Trustee member. This is a direct violation of conflict of interest regulations. The fact that the requisition order was subsequently changed does not off-set the inherent lack of internal controls relative to conflict of interest standards.

EdMAC Recommendations

1. Employees responsible for proper internal control procedures need to be aware of the Board Policies and procedural manuals that address these standards. Proper training, staff development, and regular updated policies/manuals on internal control procedures need to be provided to the staff.
2. The recommendations listed in the last two independent external audit reports, and the Cash Handling Policies and Procedures report need to be prioritized and implemented.
3. Employees responsible for the implementation and supervision of internal control procedures need to be held accountable for these duties.
4. The requirements of the Public Contract Code regarding bidding procedures, and the prevailing practice of other public agencies regarding the obtaining of three quotations for equipment under the “bid threshold” need to be routinely followed.
5. SCCD needs to revisit, and adhere to its Conflict of Interest Policy and Practices at the Board and Administrative levels.

Status of Risk: Moderate to High

IN-DEPTH REVIEW of CLEARING ACCOUNT

Authority/Standard

The Budget and Accounting Manual (BAM) has the authority of regulation in accordance with Title 5 Section 59011 of the California Code of Regulations (CCR). BAM is distributed as part of the Board of Governors' responsibility to define, establish, and maintain the budgeting and accounting structure and procedures for California Community Colleges. Each Community College is required to follow BAM in accordance with Education Code Section 84030.

BAM allows the Governing Board of any Community College District to establish "clearing accounts" for the deposit, and subsequent withdrawal of any miscellaneous receipts. All monies in any such bank account shall be paid into the appropriate County Treasury Account within a reasonable time. Reasonable time is considered by public agencies to be no less than monthly.

Annual Assessment of Need

BAM requires that all separate bank accounts be annually presented to the Governing Board for its review and confirmation of continuing needs.

Precondition (Refer to BAM for a complete list)

Separate bank accounts (clearing accounts) must be established by Governing Board resolution. The resolution must state the necessity for the separate bank account, specific purpose for which the account will be used, and the district or college officials responsible as custodians.

The names of the accounts must include at least the district/college name and some description of the purpose of the account.

The Business Services Office shall assist the custodians in developing required accounting procedures and internal controls to safeguard all money in the accounts.

Financial Reporting

The custodian must periodically prepare reports on the status of the account for review by the Board. All separately established bank accounts must be included in the annual audit of the District as required by Education Code section 84040.

EdMAC Narrative

The SCCD Clearing Account has not been operating as a typical account for at least the last few years. The account carries large sums of money for extended periods of time.

Reconciliation and reasonable transfers from the Clearing Account to the County Treasury have not occurred in a timely manner. This practice is atypical, and can potentially lead to misappropriated funds.

EdMAC is equally concerned that SCCD's other accounts/funds are not reconciled regularly. It would be difficult for Program Managers to know their budgets with any accuracy due to the delay of appropriate transfers to the County Treasury, and account reconciliation. Perhaps the conversion to the Banner System and the uncertainty of proper object codes has contributed over time to this practice.

EdMAC Findings

- Consistent with Board Policy 3080, SCCD has established the Clearing Account by Board resolution. Board Policy 3080 was last updated on March 1, 2007.
- SCCD Clearing Account (153401233132) was opened on September 23, 1994 with US Bank. Prior to US Bank, SCCD held a Clearing Account with Wells Fargo.
- All funds (principal and interest) were collateralized. According to US Bank representatives, SCCD funds in this account were never at risk.
- The Clearing Account was an interest bearing account. The funds were in a Municipal Investor Net Checking (MINC) account.
- SCCD's Independent Auditor's Report (Perry-Smith) for the year ended June 30, 2007, states that "Bank reconciliations for fiduciary funds and associated student body accounts have no indication of being reviewed." The audit report also indicated the prior year's findings of, "Bank reconciliations for fiduciary funds, clearing accounts and Cash in the County Treasury are not being reviewed in a timely manner." This prior finding of the auditors was only "partially implemented."
- SCCD has nine (9) accounts with US Bank. (Federal Financial Aid Funds, Financial Aid Funds, Bookstore Fund, Student Body Fund, District Clearing Account, Revolving Fund Account, Black History, CAL Grant Funds, and ASSC Government). Each account operates on its own. According to US Bank they are not co-mingled.
- Clearing Accounts are required to be re-authorized on a yearly basis. There appear to be no annual Board resolutions consistent with BAM requirements, establishing the Clearing Account with US Bank. No description of the purpose of the Clearing Account was located by EdMAC. BAM requires that the names of the accounts must include at least the district/college name, and some description of the purpose of the account.
- Required accounting procedures and internal controls to safeguard all money in the accounts are not evident. Requests for the control procedures were unsuccessful.
- Required BAM reports by the SCCD custodian on the status of the account were not periodically provided to the Board for review.

- It is not clear that all of the separately established bank accounts were included in the annual audit consistent with BAM requirements.
- Funds in the Clearing Account have not been transferred in a reasonable time frame, typically monthly, as required by BAM. The District made a “sweep” of \$4,577,920 to the County Treasury in December 2007, leaving a \$1,056,869 balance. By May 2008, the Clearing Account had built up an ending balance of \$3,406,439. In June 2008, SCCD made another “sweep” of \$3,883,305, leaving an ending balance of \$103,416 in the account.
- Of particular interest is a deposit in August 2007, of \$1,045,105. It appears SCCD deposited \$1,045,105 from the Bond Fund into the Clearing Account. The District issued a warrant (#25688061) in the amount of \$1,045,105 on August 8, 2007. On August 15, 2007 the warrant was deposited in the Clearing Account, not the County Treasury. It should be noted that the initial warrant should have been immediately deposited in the County Treasury, not the Clearing Account.
- Whereas the SCCD appeared to have adequate Board resolutions relative to “authorized signatories”, it does not appear that these resolutions were routinely forwarded to US Bank. Until October 2008, the most current “Master Certificate of Authority” US Bank had on file was dated May 2006.

EdMAC Recommendations

1. All SCCD funds/accounts need to be reconciled no less than monthly.
2. The Clearing Account funds should be transferred to the County Treasury no less than monthly.
3. The Board adopted resolutions, noting the authorization and signatures for SCCD bank accounts, as well as the Master Certificate of Authority need to be provided to the appropriate banks at least annually and at any time a change in the resolution or authorized signatories occurs.
4. The SCCD Clearing Account should be used only for deposits and subsequent withdrawal of any miscellaneous receipts.
5. SCCD needs to adopt an annual Board resolution establishing the Clearing Account with US Bank consistent with BAM requirements. The resolution should include at least the district/college name, some description of the purpose of the account, and the SCCD officials responsible as custodians.
6. Required accounting procedures and internal controls to safeguard all money in the accounts need to be developed and implemented by SCCD.
7. Present all separate bank accounts for the Governing Board’s review and confirmation of continuing needs annually.
8. Require the Business Services Office to develop accounting procedures and internal controls to safeguard all money in the account.
9. Require the custodian to prepare reports on the status of the account for review and inclusion in regular financial reports to the Board.
10. Affirm that all separately established bank accounts are included in the annual independent audit consistent with BAM requirements.

Status of Risk: Moderate to High

REVIEW of PURCHASING/INVENTORY POLICIES and PRACTICES

Authority/Standard

Governing Board Policies and Regulations 1000

POLICY:

The Governing Board (also hereinafter referred to as the Board) shall conduct its business in accordance with District policies and regulations.

Policies and regulations of the Governing Board may be adopted, revised or rescinded at any regular or special meeting of the Board in accordance with regulations adopted by the Board.

REFERENCES/AUTHORITY:

Solano Community College District Governing Board

GF:pc:jm
BP1000

ADOPTED: July 7, 1982

REVISED: March 18, 1987; June 6, 2007

Last Updated: August 14, 2007

California Education Code Section 81600

Governing Board Policies and Regulations 3220 Purchasing – Authority to Purchase

Governing Board Policies and Regulations 3230 – Purchasing – Vendor Relations

Governing Board Policies and Regulations 3300 – District Property – Fixed Assets Inventory

EdMAC Narrative

EdMAC found updated and code specific policies regarding purchasing and inventory. Unfortunately, similar to the internal control policies, employees responsible for policy implementation were unaware of these policies. They were also unaware of whether or not SCCD had purchasing and inventory procedural manuals. One employee indicated that the District did have a procedural manual, but upon request for the document, the employee was unable to locate it.

As referenced in the internal control section of this report, there are serious purchasing concerns relative to Public Contract Code compliance, and the acquisition of three quotations on items under the “bid threshold.” The individual proposed to be assigned to the bidding process has not been given the proper training, guidance, or direction regarding this process.

EdMAC Findings

- SCCD is required to manage and control property within its jurisdiction (Board Policy 3300).
- SCCD is required to adhere to BAM for inventory determination, and threshold value establishment.
- SCCD insurance requires that all property owned by the District be inventoried so that insurance values can be accurately established.
- A three-year physical inventory cycle shall be established. Videotapes of all buildings and their contents may be used in lieu of the physical inventory.

EdMAC Recommendations

1. The District needs to adhere to Board Policy 3300 as it relates to the management and control of District property.
2. The District needs to adhere to BAM for inventory determination, and the establishment of threshold value.
3. District property needs to be inventoried so that insurance values can be established.
4. The District either needs to conduct a three-year physical inventory cycle, or in lieu of the physical inventory, videotape all buildings and their contents.

Status of Risk: Moderate to High

EXAMINATION of RECEIPT, DISBURSEMENT, and USE of MEASURE G BOND FUNDS

Authority/Standard

In November 2000, California voters approved Proposition 39, the *Smaller Classes, Safer Schools and Financial Accountability Act*. Within the text of Proposition 39, various accountability requirements, including certain types of audits, were listed. One such requirement is the establishment of a Citizens' Oversight Committee (Committee), as required by Education Code Section 15278, et seq.

The referenced Education Code Section states, "...the Committee shall, at least annually, inform the public in a written report concerning the expenditure of bond proceeds." Specifically, the Committee shall:

1. "Actively review and report on the proper expenditure of taxpayers' money for school construction;
2. Advise the public as to whether or not the school district is in compliance with the requirements of Article XIII A, Section 1 (b)(3) of the California Constitution, which provides the following:
 - (a) Bond funds are expended only for the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities;
 - (b) Bond funds shall not be used for any teacher or administrative salaries or other school operating expenses;
 - (c) A list of projects to be funded will be included on the ballot;
 - (d) An annual independent performance audit shall be performed; and
 - (e) An annual independent financial audit shall be performed."

On November 5, 2002, the registered voters of the County of Solano approved the *Solano Community College District Measure G* by an approval rate of 55.6%. A vote of 55% was required for passage. The Measure G Bond language read:

"To upgrade 30 year old classrooms, science labs, libraries, electrical wiring, technology, heating/ventilation, systems/lighting for student safety; replace portable classrooms; expand/establish facilities in Vacaville/Vallejo; prepare Solano College students for jobs/four-year colleges, shall Solano County Community College District issue \$124.5 million of bonds at legal rates, appoint Citizens Oversight Committee, and perform annual audits to ensure the legal /proper use of all funds?"

The California Community Colleges Budget and Accounting Manual (BAM), cites further authority for the sale of bonds under 8940 (Proceeds of General Long-Term Debt – Sale of Bonds). This section also provides applicable Education Code Sections starting with E.C. 15140, et seq.

EdMAC Findings

- SCCD has a Bond Counsel.
- SCCD did not have a Financial Advisor for Measure G.
- Of particular interest is a deposit of \$1,045,105 in August 2007. It appears SCCD transferred \$1,045,105 from the Bond Fund to the Clearing Account. Warrant (#25688061), in the amount of \$1,045,105, was issued on August 8, 2007. The warrant was deposited in the Clearing Account, not the County Treasury, on August 15, 2008. It should be noted that the initial warrant should have been deposited directly into the County Treasury.
- Transfers from the Bond Fund to the General Fund are not customary. The EdMAC reviewer found no intent document, resolution, or Board minutes reflecting approval of this action. Absent compliance with these documents or intent language, the action would not be authorized, and therefore inappropriate.
- SCCD has never checked with Bond Counsel on questionable transfers from the Bond Fund to the General Fund prior to them being made.
- It appears that the SCCD Governing Board did not adopt a “reimbursement resolution” relative to these types of reimbursements, even though a sample was provided to the District by Bond Counsel.
- The authority to expend Bond Fund dollars, consistent with the Board approved Bond Project List, would typically rest with the Director of Facilities and the Vice President of Administrative and Business Services. The Program Manager for Kitchell (Program Management) indicated that he had no authority to expend Bond Funds. This individual did indicate, however, that he would check the Project List to make certain the costs were related to approved projects on the list.
- It appears that SCCD is experiencing significant Bond Project “scope creep” through “change orders”. In addition to other reasons, some projects are being “rebencheted” due to “scope creep”.
- Consistent with statutory requirements, the Citizens’ Bond Oversight Committee has issued annual reports through 2006.
- The California Constitution and applicable code sections require annual independent performance and independent financial audits be performed. On February 12, 2008, the SCCD’s independent auditors issued an Independent Accountant’s Report on Applying Agreed-Upon Procedures relative to the Measure G Bond Fund.
- SCCD has completed three (3) financings. Two (2) new money issues and one (1) refunding financing.
- The State and National financial crisis has created market conditions resulting in substantial investment losses throughout the country, including declining returns for some California County Treasurer’s investment portfolios.
- There is a \$217,138 invoice to SunGard for TCP/Maintenance charged to the Bond Fund. Typically, maintenance costs would not be Bond approved expenditures. Also, in the most recent Kitchell Bond Financial Summary Report, a number of scheduled maintenance costs were noted. Typically, maintenance costs are not an allowable cost to the Bond Fund.

EdMAC Recommendations

1. SCCD should consider contracting with a financial adviser in subsequent Bond financings.
2. SCCD should adopt a “reimbursement resolution” regarding Bond Fund reimbursements. The SCCD’s Bond Counsel can provide a sample resolution for this purpose.
3. A Bond Counsel’s opinion is required to determine whether the \$1,045,105 transferred from the Bond Fund to the General Fund is an approved Bond Project expenditure.
4. A Bond Counsel’s review and opinion is required on the scheduled maintenance costs noted in the October 2008 Kitchell Bond Financial Summary Report.
5. The District may want to consider expanding the independent auditor’s scope relative to the required annual independent performance and financial audits, to insure Bond Fund expenditures are consistent with the SCCD Board Project List.
6. Expenditures from the General Fund for Measure G projects should not be allowed without a “reimbursement resolution” approved by the Governing Board.
7. In the event SCCD is uncertain whether a Bond expenditure is listed on the Board Project List, they should check with their Bond Counsel prior to authorizing the expenditure.
8. The Governing Board should, by resolution, determine who has authority to sign-off on legitimate Bond Projects expenditures. This resolution would help SCCD hold responsible individuals accountable for such approval.
9. SCCD should monitor, through its CEO and administration, the degree and frequency of Bond Project “scope creep” through “change orders”. A monthly report needs to be provided the Governing Board and Citizen’s Oversight Committee relative to this matter.
10. SCCD should review the Fiscal Crisis and Management Assistance Team’s October 10, 2008, “FCMAT Alert” on “Investing and Safeguarding District Funds”. This Alert is provided as attachment B.

Status of Risk: Moderate to High

FISCAL HEALTH and RISK ANALYSIS

Note: This section of the report follows the format established by the State Chancellor's Office as augmented by EdMAC. EdMAC has added some essential elements, and provided a narrative in italics.

Status and Level of Risk in District's Fiscal Practices, Trends, and Operations

1. Internal Controls and Purchasing – Is this Area Acceptable?	No
• Does the District have clear Board policies relative to internal controls and purchasing?	Yes
• Does the District have procedural manuals/directives relative to internal controls and purchasing?	No
• Is the District generally following Board policies and procedural manuals?	No
• Are cash and bank accounts reconciled regularly?	No
• Does the District conduct an annual “wall inventory”	No
• Was the District’s external June 2007 audit report free of material weaknesses relative to state and federal programs?	Yes
• Are the Accounts Payable and Purchasing Departments separated by supervision?	Yes
• Does the District have position control?	No

SCCD has adequate and timely Board policies relative to internal controls and purchasing. Board Policy 3220, updated March 1, 2007, provides a description authority to purchase and references Public Contract Code 20651, and Education Code Section 70902.

Board Policy 3020 provides a strong statement relative to fiscal management, including adequate internal controls. This policy also references Title 5, Section 58311, and Education Code Section 84040 (c) that addresses proper fiscal management and strong internal controls.

The policies and guidelines referenced by Education Code and Title 5 are not being completely followed. As a result, the internal controls of SCCD are weak, and purchasing practices need to be improved.

EdMAC found the new Purchasing Agent has not been given adequate training and support. This desk has recently been assigned the responsibility of assisting with packet development pertaining to the bidding process. Training regarding this process relative to “threshold

levels”, pertinent code sections, and process is vital to success. As a result, the internal controls of SCCD are weak, and purchasing practices should be improved. There is clear evidence that there is a lack of adequate physical controls over cash receipts from time of mail opening/receipt until time of bank deposit. The cashing of checks out of currency receipts is not prohibited. Receipts are not routinely issued to payer for cash collections. Please refer to other sections of the report that more fully address internal control and purchasing concerns.

2. Fund Balance – Is this area acceptable?	No
• Is the District’s fund balance stable or consistently increasing?	No
• Is the fund balance increasing due to on-going revenue increases and/or expenditure reductions?	No
3. Enrollment - Is this Area Acceptable?	Yes
• Has the District’s enrollment been increasing or stable for multiple years?	No
• Are the District’s enrollment projections updated at least semiannually?	Yes
• Are staffing adjustments consistent with the enrollment trends?	Yes
• Does the District analyze enrollment and full time equivalent students (FTES) data?	Yes
• Does the District track historical data to establish future trends between P-1 and annual enrollment for projection purposes?	Yes
• Has the District avoided stabilization funding?	No

Year	Apportionment Attendance Report – Annual Report FTES @ P3 (Part I, Line D. Factored FTES)	Change in FTES	% Change in FTES Year-to Year	% Change in FTES from 2005-2006 to present year
2005-06	9,182.02			
2006-07	9,160.43	-21.59	-0.24%	
2007-08	9,100.66	-59.77	-0.65%	-0.89%

SCCD’s enrollment has decreased slightly over the last three years. As reflected in the Educational Master Plan, the District’s enrollment growth goal is 2% per annum. There is an administrative goal of accomplishing restoration to the FTES base of 9,182 by 2009-10.

Enrollment trend data is distributed by the Admissions and Records Office to the campus community during registration periods. The Vice President of Academic Affairs reviews enrollment trend data with the division deans for purposes of tracking progress toward goals, and planning future terms. The Enrollment Management and Student Retention Task Force (composed of faculty, staff, and administrators from Academic Affairs and Student Services) reviews enrollment trend data semiannually.

4. Unrestricted General Fund Balance – Is this Area Acceptable? Yes

- Is the District's unrestricted general fund balance consistently maintained at or above the recommended minimum prudent level (5% of the total unrestricted general fund expenditures)? Yes
- Is the District's unrestricted fund balance maintained throughout the year? Yes

The District has maintained a 5% or higher reserve over the last several years.

5. Cash Flow Borrowing - Is this Area Acceptable? No

- Can the District manage its cash flow without interfund borrowing? No
(Unlikely With Current State Budget Adoption Delays and Deferrals)
- Is the District repaying TRANS and/or borrowed funds within the required statutory period? **(SCCD did not issue a TRAN this fiscal year.)** NA

The District did not issue Tax Revenue Anticipation Notes (TRAN), for 2008-09. A TRAN is an instrument issued to secure short-term monies borrowed in expectation of collection of taxes. As a result of the State budget delays and deferrals, it seems unlikely that the District can manage its cash flow without interfund borrowing.

Districts that do not issue a TRAN, typically cover cash flow deficits with their reserves or fund balances, interfund borrowings, restricted general fund money, or occasionally, advances from the County Treasurer. These methods can be more costly, and present a higher risk than issuing a TRAN. The District should explore the wisdom of issuing a TRAN for the 08-09, and 09-10 fiscal years.

6. Bargaining Agreements - Is this Area Acceptable? No

- Has the District settled bargaining agreements within new revenue sources during the past three years? No
- Did the District conduct a pre-settlement analysis identifying an ongoing revenue source to support the agreement? No
- Did the District correctly identify the related costs associated with the agreement? No
- Did the District address budget reductions necessary to sustain the total compensation increase? No

7. Unrestricted General Fund Staffing - Is this Area Acceptable? Yes

- Is the District ensuring it is not using one-time funds to pay for permanent staff or other ongoing expenses? Yes
- Is the percentage of SCCD's General Fund Budget allocated to salaries and benefits at or below the statewide average (i.e. the statewide average for 2003-04 is 85%)? Yes

8. Deficit Spending - Is this Area Acceptable?	No
• Is the District spending within their revenue budget in the current year?	No
• Has the District controlled deficit spending over multiple years?	No
• Is deficit spending addressed by fund balance, ongoing revenue increases, or expenditure reductions? (Fund Balance)	Yes
• Are District revenue estimates based on past history?	Yes
• Does the District automatically build in growth revenue estimates? (Restoration Yes, Growth No)	Yes/No

The District has maintained a 5% or higher reserve over the last few years.

9. Retiree Health Benefits - Is this Area Acceptable?	No
• Has the District completed an actuarial valuation to determine the unfunded liability under GASB requirements?	Yes
• Does the District have a plan for addressing the retiree benefit liabilities?	No
• Is the District part of the Community College League JPA?	Yes
• Does the District conduct a re-enrollment period every year?	No
• Is the District contributing more than “a pay as you go” amount?	No

SCCD engaged Total Compensation System, Inc. (TCS) to analyze liabilities associated with its current Retiree Health Program as of March 1, 2008 (the valuation date). TCS’s report, with its recommendation’s was issued October 9, 2008. The primary purpose of TCS’s report was to “provide information to enable Solano CCD to manage the costs and liabilities associated with its retiree health benefits.”

TCS’s report indicates SCCD has set aside \$937,234 to fund retiree health liabilities. As of the report writing, the balance in that fund was approximately \$896,257. TCS’s report reflects an unfunded actuarial accrued liability of \$13,507,213. They calculated the annual cost to amortize the unfunded actuarial accrued liability using a 7% discount rate.

The current year cost to amortize the unfunded liability is \$770,111. Based on covered payroll, payments would increase each year. Under this scenario, payments would continue for 30 years, after which time amortization payments would end.

This is an excellent report, and its recommendations should be carefully considered for implementation. EdMAC believes the report’s recommendation regarding communication is of particular importance. The report in part states, “We recommend that the College communicate the magnitude of these costs to employees and include employees in discussions of options to control costs”.

10. District External Audit Report - Is this Area Acceptable?	No
• Did the District receive an independent external audit report without material findings?	Yes

- Did the District correct all prior findings from the previous audit report? No
- Was the District prepared, and has it completed the external auditor's check list? No
- Is it likely the audit for 2007-08 will be completed in a timely manner? No

The most recent independent audit report prepared by Perry-Smith, LLP, 2006-07, reported no material findings. The audit firm did not identify any deficiencies in internal control with respect to compliance issues that they considered to be material weaknesses as defined in their audit report. The audit report did, however, make significant recommendations regarding internal controls and safeguarding of assets.

In the area of bank reconciliations for fiduciary funds, the audit report states, in part, "All bank reconciliations should be closely reviewed on a monthly basis and all reconciling items be resolved in a timely manner. Furthermore, indication of this review process should be clearly marked on the reconciliation. The District should ensure that all accounting staff members are sufficiently trained to properly complete bank reconciliations." The audit report's prior year findings states: "Bank reconciliations for fiduciary funds, clearing accounts and Cash in County Treasure are not being reviewed in a timely manner."

As of this report writing, the District was not totally prepared for the external auditors. Fixed assets and GASB 35 entries were described as items unfinished or requiring attention. The external auditors were scheduled to be at the District November 3, 2008. The District was not ready for this visit, and as such, the audit team will reschedule their visit. Because of this delay, it is likely that the audit report for 2007-08 may be late.

- ## 11. Facilities and Sites - Is this Area Acceptable? Yes
- Has the District passed a General Obligation Bond? Yes
 - Did the District receive an independent external audit report without material findings? Yes
 - Did the audit report reflect that proceeds of the sale of the General Obligation Bonds were used only for the purpose set forth in the ballot measure, and not for any other purpose? Yes
 - Were the facilities and sites in good conditions and well maintained? Yes

SCCD has completed three (3) financings from the Measure G Bond Fund. There have been two (2) new money issues, and one (1) refunding issue. Even though the Bond Counsel prepared a "reimbursement resolution" for SCCD's consideration, EdMAC could not locate this resolution, and concludes SCCD did not use it. SCCD did not have a Financial Adviser for consultation on the various Bond issues.

Even though SCCD did not have any material findings in their independent external audit report, consideration needs to be given for an expanded scope of the audit in reviewing Bond transactions. Please refer to the section within this report labeled, "Examination of Receipts, Disbursements, and Use of Measure G Bond Funds."

12. Management Information System - Is this Area Acceptable?	No
• Is the District's financial data accurate and timely?	No
• Are State reports filed in a timely manner?	No
• Are key fiscal reports readily available and understandable?	No
• Does the system have hard coded warnings regarding insufficient funds for requisitions, and purchase orders?	Yes
• Does the District encumber salaries and benefits?	No
• Does the District have/utilize Position Control?	No
• Is the District fully utilizing Banner capabilities?	No

Prior to the conversion to Banner in 2008, the District had a “mix” of the Santa Rosa System for Student and QSS for HR and Finance. On January 1, 2008, SCCD went live with the Banner Finance Module. They went live with the HR/Payroll Module July 31, 2008. The Student System went live April 21, 2008 with the portal “My Solano”. The first day of registration using Banner was May 5, 2008 for the 2008 Summer Session. The IT Director reports there were parallel runs on each module prior to going live.

The Banner System has “position control”, but that System is not being used. The District does not have the ability to write reports relative to “position control”. The project known as “Enterprise Resource Planning” (ERP) is essentially Banner.

Many of the expenses relative to ERP have been expensed to the Bond Fund. Apparently, the original ERP project cost \$4.2 million. This amount included hardware, software, and consultants. Data reflects that \$2.2 million came from the Measure G Bond Fund, and \$2 million from SCCD General Fund. There are assumptions from staff that SCCD originally paid the entire \$4.2 million for the ERP project from the General Fund.

The IT Director reported that the only budget codes he was given for ERP were General Fund codes. His division submitted requisitions using General Fund budget codes, and as such, an assumption is made by staff that payments for the Bond Project (ERP) were made from the General Fund.

Reports are not timely, and appear to be inaccurate. The District is still doing paper requisitions on the front end for Measure G purchases, but has converted to electronic requisitions for other purchases. The District is currently not encumbering salaries and benefits. The current system does not have the ability to generate ad hoc reporting.

EdMAC found inconsistencies in reporting by employees on whether the District did parallel testing prior to going live with payroll. It appears the District did not run two parallel production systems, but did indeed test payroll runs frequently prior to going live with the July 2008 paychecks.

There were many glitches with the new system that have been fixed, but some are ongoing. Some of the flaws relate to how the employees are using the system, which speaks to the need

for adequate staff development, and other errors relate to software adjustments within the system itself that have not been fully addressed. According to staff, some system issues will not be addressed until the next major release.

Banner is a very robust system with the ability of producing a variety of reports. The District is using some of the reports, but is not taking advantage of others. Some end users reported they did not find some of the reports “user friendly,” as the information is displayed differently than they are accustomed to seeing. This also seems to point to a need of better staff development. Specifically, finance and human resources are two areas that could benefit by more training.

In converting the District’s salary schedule to Banner, salaries for some employees changed. In some cases, employee’s monthly gross salary went up, and in others it went down. In terms of the increased salary amount, it appears the District has an unfunded liability.

The analysis of who is under or over paid needs immediate attention. This analysis and correction needs to be addressed in this fiscal year due to STRS/PERS implications. The Payroll Coordinator for the District is working diligently, but is forced to “hand input” a great many entries, and in EdMAC’s opinion, having to perform entry level work.

For instance, EdMAC observed constant pay adjustments were being made. This is due to errors being made during data entry into Banner, and not having a report writer for the end user. In part, this is causing over and under payments. There appears to be no “report writer” for the end users. The State reporting, relative to STRS and PERS, is of great importance, and needs immediate attention.

Workload reporting for faculty is currently a particularly difficult problem for the District. Faculty workload and Human Resource/Payroll has not been integrated. Because of court decisions regarding due process, the District should consult with legal counsel with respect to recovering overpaid compensation.

13. Position Control - Is this Area Acceptable?	No
• Is position control integrated with payroll? (With Banner Yes, but Not Fully Understood by SCCD Employees)	No
• Does the District control unauthorized hiring?	Yes
• Does the District have control over part-time academic staff hiring?	Yes

Position control is part of the new Banner System. However, it is not fully understood, or being utilized for coordination between Payroll and Human Resources.

As an example, at one point during EdMAC’s review of position control, Payroll reported the number of Full Time Equivalent Faculty (FTE) as 176, and the Human Resources Department reported FTE as 172. In examining the expenditure budget for salaries for 08-09, it appeared the budget reflected the 172 dollar amount for FTE, thus under representing the true costs of expenditures in this object code.

14. District Budget Development/Monitoring - Is this Area Acceptable? No

- Is there sufficient consideration given to the budget, related to long-term bargaining agreements? No
- Are budget revisions completed in a timely manner? No
- Does the District openly discuss the impact of budget revisions at the Board level? No
- Are budget revisions made or confirmed by the Board in a timely manner, after the collective bargaining agreements are ratified? No
- Have the District's long term liabilities decreased from the prior fiscal year? No
- Has the District identified repayment sources for long term debt? No
- Is the District's 2008-09 tentative budget adopted? No
- Will the District's 2007-08 books be closed in a timely manner? No
- Does the District allow for total access to the budget? Yes
- Does the District compile annualized revenue and expenditure projections throughout the year? Yes

The District, as of this report writing, had not completely closed the 2007-08 fiscal books. The books were initially closed, but were required to be re-opened for "clean up work". It was reported to EdMAC that the numbers for the unaudited actuals should not change.

Pursuant to the California Code of Regulations, Title 5 Section 58305, each Community College District shall adopt a final budget on or before the 15th day of September. Due to the budget impasse, the System Office has extended this deadline to October 15, 2008. The District's 2008-09 budget has not been adopted. At the November Board meeting, a tentative budget was presented as an informational item, and the District is anticipating adopting the final 2008-09 budget at the December 2008 Board meeting.

15. Leadership Stability - Is this Area Acceptable? No

- Does the District have a Superintendent/President and/or Chief Business Official who has been with the District more than two years? No
- Does the Governing Board adopt clear and timely policies and support the administration in their implementation? Yes
- Are key administrative positions (V.P. and Deans) filled for the 2008-09 fiscal year? No

The immediate past SCCD Superintendent/President served the District from February 2008 to October 2008. The current Interim Superintendent/President has served in this capacity from October 2008 to the present. The Vice President of Student Services position is vacant, and currently being filled by an interim. The current Vice President of Academic Affairs has served in the position since January 2008.

During the site visit there were fourteen (14) key openings and/or vacancies within the District, including President/Superintendent, Director of Fiscal Services, Director of

Facilities, Dean of Admissions and Records, and Dean of Administrative Services. There are a number of interim and acting administrators stepping up to assist during this transition.

16. District Liability- Is this Area Acceptable?	No
• Has the District performed the proper legal analysis regarding potential lawsuits that may require the District to maintain increased reserve levels?	No
• Has the District set up contingent liabilities for anticipated settlements, legal fees, etc?	No

The District has potential unfunded liability related to retiree health benefits, fire site training clean up, and payroll issues related to over pay and potential litigation. The District's independent external audit report for the year ended June 30, 2007 states, "There are various claims and legal actions pending against the District for which no provision has been made in the basic financial statements."

At the time of the audit, the District did not consider the claims and legal actions significant. EdMAC recommends that any unfunded liability be quantified and consideration be given to budget implications and financial statements.

17. Reporting - Is this Area Acceptable?	No
• Has the District filed its annual audit report with the System Office in a timely manner?	No
• Has the District taken appropriate actions to address material findings cited in their annual audit report? (No Material Findings Noted – Other Recommendations No)	NA
• Has the District met the requirements of the 50 percent law? (The SCCD utilized a consultant to assist with this calculation.)	Yes
• Have the Quarterly Financial Status Reports (CCFS-311Q), Annual Financial and Budget Reports (CCFS-311), and Apportionment Attendance Reports (CCFS-320) been submitted to the System Office on or before the stated deadlines?	No

(The District did not submit its CCFS-311Q (Quarterly Financial Status Report) to the State Chancellor's Office in a timely manner. The District did not adopt its final budget by the extended deadline of October 15, 2008.

Risk Analysis

Affirmative responses represent those areas of District leadership, operations, and fiscal health where there is very little or no risk. Negative responses represent those areas of District leadership, operations, and fiscal health where there are moderate to high levels of risk to the District. With a total of forty-four (44) "No" ratings, the District has earned a rating of **very high risk**.

The categories in which the District received an overall “No” rating are Internal Controls/Purchasing, Fund Balance, Cash Flow Borrowing, Bargaining Agreements, Deficit Spending, Retiree Health Benefits, External Audit Report, Management Information System, Position Control, District Budget Development/Monitoring, Leadership Stability, District Liability, and Reporting. The reviewer found the Solano Community College District at risk in a number of operational areas.

EXAMINATION of the STATUS of VARIOUS REPORT FINDINGS

(EdMAC examined the District's External Audit Report, the Cash Handling Report, the ACCJC Accreditation Review Letter as well as other reports pertinent to the EdMAC Scope of Study. Some of these reports are highlighted below. References to other reports are addressed in the Executive Summary.)

External Audit Report

Authority/Standard

The authority for conducting the District's external audit is found in Education Code Section 84040 et seq. : "It is the intent of the Legislature to encourage sound fiscal management practices among community college districts for the most efficient and effective use of public funds for the education of community college students by strengthening fiscal accountability at the district and state levels. The governing board of each community college district shall provide for an annual audit of all funds, books, and accounts of the district in accordance with regulations of the Board of Governors. The audit shall be made by certified public accountants licensed by the California Board of Accountancy."

EdMAC Narrative

EdMAC found that the external audit report for the year ended June 30, 2007 was received by the District consistent with Education Code Section 84040 et seq. There were no "material weakness(es)" identified in the June 30, 2007, external audit report. There were some key findings and recommendations in the June 30, 2007, external audit report that require attention and adherence. The auditors found the District is not in compliance with the calculation requirements for the GANN Appropriation Limit. "The District overstated the appropriations limit by .62 FTE, or \$111,710." There is no real fiscal impact to the SCCD regarding this overstatement. The District needs to revise its GANN Limit Calculation.

The audit report also indicated that, "Bank reconciliations for fiduciary funds and associated student body accounts have no indication of being reviewed." The audit report recommended: "All bank reconciliations should be closely reviewed on a monthly basis and all reconciling items be resolved in a timely manner."

EdMAC found little to no evidence that bank reconciliations are occurring on a monthly basis. The June 30, 2007, audit report reflected bank reconciliations concerns with prior year findings as well. A prior year audit finding stated, "Bank reconciliations for fiduciary funds, clearing accounts and Cash in County Treasury are not being reviewed in a timely manner." The audit report states that this prior year finding was only "partially implemented."

EdMAC has concern regarding the status of the external audit report for the year ended June 30, 2008. At the time this report was written, the District was not prepared for the external auditors. The auditors were not able to commence work on the agreed upon November 3, 2008, date. District staff was still working on completing GASB 35 entries and fixed assets, as well as other audit check list items. It is unlikely that the audit report will be completed, and provided to the State Chancellor Office by the December 31, 2008, deadline.

EdMAC Findings

- District audit findings are not consistently implemented.
- The District does not prioritize and allocate resources to critical audit findings.
- The District was not prepared for the external auditors for the year ended June 30, 2008.
- The District did not have adequate staff in numbers to prepare for the auditors, or correct some of the prior year findings.

EdMAC Recommendations

- The District needs to prioritize and address all external audit recommendations. A point person should be assigned the task of reporting the audit findings, recommendations, and developing an implementation matrix relative to the prioritized list of recommendations. The Board should request a periodic report on the status of implementation.
- Resources to aid staff in the preparation of documents requested by the auditors should be made available. In addition to their daily duties necessary to maintain fiscal stability, Business Office staff has become overwhelmed by the volume of work required to meet auditor's requests. EdMAC recommends additional resources, in the form of skilled staff, be provided during this peak time.

Cash Handling Policies and Procedures Report

At the request of the Vice President of Administrative and Business Services, the SCCD Board approved a contract to conduct a "Cash Handling Policies and Procedures" review on December 19, 2007. Evidence suggests that this review was triggered by SCCD's external audit report findings relative to internal controls. This particular report, completed in June 2008, lists areas of concern regarding cash handling, and the internal controls associated with handling and recording cash and securities.

EdMAC found the report to be helpful and accurate in stating the status of internal controls within SCCD. There is no evidence the report was ever provided or presented to the SCCD Board of Trustees. It does not appear the report was ever presented at Cabinet for review and implementation discussion. There is little evidence the report recommendations have been prioritized or implemented at any level. The Vice President of Administrative and Business Services reported to EdMAC that "mass meetings" to address the report findings were going to be held in the month of November. These meetings did not occur.

Key report findings included the following:

- Deposits are not made as soon as they should be, with some being deposited more than a week after receipt.
- Head Cashier does not have a specifically designated locked safe.
- Large sums of cash are collected in dual custody and immediately locked up. It is counted at a later time in single custody.
- The Student Bookstore cashes checks for faculty and staff.
- Deposits are placed in a locked file cabinet in a hallway. It is neither secure nor fire safe.
- Fiscal Services does not work all receipts collected each day, and process them for deposit in the bank.
- It is not clear if there is an actual reconciliation of credit card transaction totals to the bank for all departments accepting card transactions.
- Students in Cosmetology, with some supervision, handle the front desk and cash register. Receipts are not given for payments, and there does not appear to be any type of reconciliation process that takes place.
- Deposits are not locked in a safe. A small safe purchased by the District was stolen after being used once, and another larger safe was purchased, but was broken into. Staff has returned to locking cash in various locked file cabinets. These cabinets are not fire safe or secure.

EdMAC Recommendations

- Present cash handling policies and procedures report to SCCD Governing Board and President/Superintendent, and prioritize recommendations at the Cabinet level.
- Provide the necessary staff development regarding the various report findings and recommendations.
- Implement the prioritized recommendations immediately.

Accrediting Commission for Community and Junior Colleges (ACCJC)

The Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges, reviewed the Progress Report submitted by Solano Community College, and the report of the evaluation team that visited the District on November 29, 2007 at its meeting on January 9-11, 2008.

In January 2008, the Commission issued a **Warning**, and expected the Solano Community College to correct the following deficiencies/recommendations:

General Recommendation 1: Improving Institutional Dialogue

General Recommendation 2: Improving Institutional Planning

General Recommendation 3: Improving Institutional Effectiveness

General Recommendation 4: Student Learning Outcomes

General Recommendation 5: Library Resources

General Recommendation 6: Staffing and Organizational Stability**General Recommendation 7: Fiscal Integrity and Stability****General Recommendation 8: Leadership**

The College was required to complete a Special Report in conjunction with the Midterm Report by October 15, 2008. The College submitted both the Special Report and Midterm Report to ACCJC October 15, 2008. The reports seem comprehensive and well developed. ACCJC will require evidence consistent with the report content. These reports were followed by a visit to the College by Commission representatives during the first week of November.

A warning is issued by the Commission when it finds that an institution has pursued a course of action which deviates from the Commission's eligibility criteria, standards of accreditation, or policy to an extent that raises a concern regarding the ability of the institution to meet accreditation standards. ACCJC's January 31, 2008 letter also stated, "under U.S. Department of Education regulations, institutions out of compliance with standards or on sanction are expected to correct deficiencies within a two-year period or the Commission must take action to terminate accreditation. Solano Community College must correct the deficiencies noted by the Commission by **January 2009**."

EdMAC did not review all of the recommendations, but did focus on Recommendation 6: Staffing and Organizational Stability, Recommendation 7: Fiscal Integrity and Stability, and Recommendation 8: Leadership. There are significant issues in each of these recommendations that need immediate attention. EdMAC's report addresses these areas.

EdMAC Findings

- The ACCJC issued a "Warning" on January 31, 2008, and requested that Solano Community College correct certain deficiencies.
- The College was required to complete a Special Report in conjunction with the Midterm Report by October 15, 2008. These reports were submitted on time.
- EdMAC did not observe a sense of urgency at the College regarding the ACCJC deficiencies and time-lines relative to the "Warning" status. Although there were individuals that recognized the importance and significance, there was no institutional awareness or direction in relationship to the seriousness of the deficiencies.

EdMAC Recommendations

1. EdMAC suggests that the accreditation status of SCCD should be of highest concern to the institution and educational community. The District must address the deficiencies noted by the Commission by January 2009.
2. The District needs to direct its attention and resources to addressing the ACCJC recommendations immediately.
3. The District needs to determine when the ACCJC sanctions initially were filed, as the U.S. Department of Education regulations only allow for a two-year period for sanctions to be corrected.

APPENDIX A

State Chancellor's Report Status for SCCD

1. Annual Financial and Budget Report (CCFS-311) Due 10/10/08 – Certified electronically - State missing a hard certified copy.
2. Gann Limit Worksheet (Due 10/10/08) – Certified electronically - State received a hard copy. SCCD used annual apportionment FTES for 2006-07 calculations, instead of the second principal apportionment. This was an audit finding in the 2006-07 external audit report. The audit report recommended a revised GANN Limit calculation. As of the date of this report, the revised GANN Limit calculation had not been submitted to the Chancellor's Office.
3. Lottery – CCFS-311 - (Due 10/10/08) – Certified electronically; – State missing a hard copy.
4. CCFS-320 & CCFS-320F (Due 10/31/08) – Certified electronically – State received a hard copy.
5. CCFS-317 (Due 10/31/08) – Since the District revised FTES for 2007-08, and submitted a recalculated CCFS-320 report on 10/31/08, CCFS-317 also needs to be submitted. The District may contact Elias Regalado from the State Chancellor's Office to assist them with this report.
6. CCFS-320 ADDENDUM (Due 10/31/08) – State missing the addendum for center FTES and the District may contact Elias Regalado from the State Chancellor's Office to assist them with this report.
7. Final Amendments-Apportionments – Career Technical – CCFS-321- District is not required to submit this report as they do not offer an apprenticeship program.
8. Part-Time Faculty Office Hours Final Reimbursement Claim - CCFS-365 – (Due 11/1/08) – State missing this report and the District may contact Chris Yatooma from the State Chancellor's Office to assist them with this report.
9. Part-Time Faculty Health Insurance Program – CCFS – 360 - (Due 11/1/08) – State missing this report, and the District may contact Chris Yatooma from the State Chancellor's Office to assist them with this report.
10. Part-Time Faculty Compensation Report – CCFS – 367 - (Due 12/15/08) – The District may contact ChrisYatooma from the State Chancellor's Office to assist them with this report.

11. Quarterly Fiscal Status Report - CCFS-311Q – (First quarter report due 11/15/08) – State missing this report. It needs to be certified electronically, and an original certified copy needs to be mailed. The District may contact Kuldeep Kaur from the State Chancellor's Office for assistance with this report.
12. Full-Time Faculty Obligation Report – 110/FFO - (Due 11/17/08) – State missing this report. The District may contact Kuldeep Kaur from the State Chancellor's Office for assistance with this report.
13. Annual Audited Financial Statements (Due 12/31/08) – This report is due in December. The audit firm usually mails this report to the System Office. The District may contact Kuldeep Kaur from the State Chancellor's Office with any questions relating to the audit.
14. Budget Adoption – According to Title 5, section 58305(c) – The Governing Board of each District shall adopt a final budget on or before the 15th day of September; however, due to the State's budget impasse, the System Office has extended this deadline to October 15th in accordance with Title 5, section 58306. At the time of this report writing, SCCD had not adopted its budget.
15. Closing of Books – Title 5 section 59106 and Ed Code section 84040.5 require the District to submit annual audited financial statements by December 31st.
16. Part-Time Faculty Compensation Report - CCFS-367 – (Due 11/01/08) – At the time this report was written, SCCD had not submitted the report.

APPENDIX B

Alert

FCMAT News Alert — Community Colleges Preparing Locally for the Impact of the State Budget

In preparation for dealing with an estimated \$14.6 billion dollar statewide deficit in the 2008-09 California state budget and ongoing discussions in Sacramento regarding 2007-08 midyear budget reductions, many community college districts are now preparing for a period of fiscal uncertainty and challenging financial times ahead. When attempting to balance the budget, community college districts will need to make difficult choices about which expenditures, programs and functions deserve continued funding and which are best scaled back, reconfigured or eliminated. In the short term, community college districts should not hesitate to take immediate actions to help to ensure their solvency over the next two years. For community colleges, the governor's proposal would provide no cost of living adjustment (COLA), reduce growth to 1%, and make across the board reductions to categorical programs.

The Senate budget committee continues to discuss the governor's proposed two month delay in the \$200 million apportionment deferral payment (the governor made similar proposals for K-12 schools and county agencies). Much of the discussion has focused on how this proposal would transition the state's cash flow problem to the local level. The committee continues to try to identify other options to defer payments that would have less impact on local agencies.

The governor has also proposed reducing community colleges' general apportionments by \$40 million in the current year to achieve savings and lower the Proposition 98 minimum guarantee for the 2008-09 fiscal year. At the same time, the governor has indicated that he would like to work with community college stakeholders to identify unspent funds and other one-time savings to eliminate the proposed \$40 million reduction, thus leaving apportionments at current funding levels (the governor has made a similar \$360 million proposal for K-12 schools).

Proposition 92 would reduce community college fees to \$15 per unit and limit fee increases in the future. Under current law, the state provides a minimum level of support (Proposition 98) for K-12 schools and community colleges using a formula tied to changes in the economy and K-12 attendance. Under Proposition 92, the K-12 funding formula would stay the same but community college funding would be tied to a new growth factor based on the young adult population, which is anticipated to increase faster than K-12 attendance. The Legislative Analyst's Office (LAO) estimates that the initiative would require the state to spend approximately \$300 million more during the first three years.

Background

California's community college system is the largest in the nation, with 72 districts, 109 campuses and approximately 2.5 million students. One of the greatest obstacles for community colleges experiencing financial difficulty is deciding which areas to reduce among the various operational and program priorities. One first step is to create a list of the costs of providing required and/or essential services.

Once this list is created and the cost to perform all the required elements is calculated, community colleges can begin to determine how much money, *if any*, is left for discretionary uses such as enhancing course offerings, additional supplies, capital improvements not funded with state monies, and other items that may improve colleges and support the community college district's mission but do not have a dedicated, ongoing revenue source.

This process will also help bring a community college's financial status to the front of the public's consciousness and may help to prompt collaborative efforts to find solutions. As part of its effort to help support colleges as they make fiscal decisions, FCMAT has compiled a list of issues that business officials might consider when cost containment or budget reductions become inevitable. This alert contains industry-standard or best practices regarding areas to evaluate and recommended actions.

Recommended areas for review and possible cost containment

Regular and frequent budget monitoring is always a sound fiscal practice and must be more of a focus in times of fiscal uncertainty. Community colleges that have not already done so should get their budget priorities in order now. Community colleges should ensure that current year budgets and multiyear forecasts are up to date and that the information they contain is accurate and based on the most current assumptions. Economic indicators will change quickly in this environment, so staying connected to current financial information and support such as that provided by School Services of California (SSC) will help keep community colleges informed. It is recommended that community colleges run multiple budget scenarios to assess the impacts of the various COLA and categorical proposals.

FCMAT's goal was to identify the most important things that community colleges should consider in uncertain fiscal times. The list of 16 items below can be viewed as a starting point for local decision making. Because most colleges spend 80% to 90% of all general fund dollars for salaries and benefits, the task, particularly in the current year, is daunting. Nonetheless, it must be done. Take a measured and logical approach and try not to panic.

Faculty/Staffing Impacts

1. To consistently maximize revenues, community colleges need to monitor enrollment year to year to ensure that they meet the funded target for serving full time equivalent students (FTES). Community colleges usually set targets to manage weekly student contact hours per full-time equivalent faculty member (WSCH/FTEF).

Review all staffing to ensure that staffing formulas, ratios and class sizes (which are often specified in collective bargaining agreements) are being followed according to contract. Seniority lists should be established for all employees/positions in case employee layoff notifications need to be issued. Freeze hiring for all vacant nonessential management, certificated and classified positions, unless hiring is required by contract.

2. Reduce the use of adjunct faculty when possible, as well as overtime and all staff on special assignments. Reconcile position control data from the human resources department with the amounts budgeted for salaries and benefits, and capture excess dollars where possible.

Restricted Program Dollars and Other Funds

3. Ensure that categorical restricted resources and other funds are self-supporting to limit general fund contributions. This should include paying for general fund overhead expenses such as direct support, indirect costs, PERS revenue limit reduction, post-retirement benefits and all other costs.
4. Expend restricted dollars first whenever possible, and freeze nonessential purchases using unrestricted dollars, such as travel or equipment. Complete an in-depth review of expenditures being charged to unrestricted funding. Review existing encumbrances and liquidate any balances that will not be expended. Maximize the efficient use of all categorical resources and strive to limit carryover in these programs.

Budget

5. Identify all one-time sources of revenue and corresponding expenditures in the budget to clarify the district's funding sources. Delay making final decisions on any new ongoing costs, such as collective bargaining negotiations and capital leases, until reliable fiscal information regarding the state budget is available to enable a better understanding of the multiyear impact on the district's budget. Quantify the available dollars that can be prioritized for uses that may include salary increases.

Declining Enrollment/FTES

6. The college is required to restore losses in FTES within three years after the initial year of the decline. For example, to restore the lost apportionment revenues from a reduction in FTES during 2004-05, the college must restore the FTES during the 2007-08 fiscal year or earlier.

Colleges must balance the need to attract additional students, or FTES, with the cost of attracting and serving those students. If the cost to serve students is greater than the revenue generated, the college derives no financial benefit. Classes should be of sufficient size and faculty should have a sufficient level of weekly student contact hours to ensure that the cost of serving students does not exceed the associated revenues. The college should also develop or modify its course catalog to provide the programs and classes that are most in demand, and use numerous methods of outreach and advertising to inform the community of its offerings. Space and staffing decisions should take into account the programs and classes with the highest enrollment and interest.

Benefits

7. Review health plan costs for cost containment opportunities such as second opinion requirements and primary physician assignments. Conduct a re-enrollment of employees eligible for health benefits to ensure that employees are not covered after separation from the district and that retiree benefits are not being offered after the contracted age. Review the method used to coordinate Medicare benefits with retiree health plan benefits.

Consider a cap on health benefit plans with the collective bargaining units.

Contracted Services

8. Review contracted services annually to ensure that the community college district is receiving what it is paying for and that a less expensive vendor is not available. This can include professional services such as auditing or legal services, which can be negotiated by requesting competitive quotes.

Long Term Debt, Services and Leases

9. Monitor copy machine costs. Compare the per-copy cost of leases, materials and agreements on existing copiers. Using an outside vendor is sometimes more cost effective because maintenance and replacement costs on older machines are high.
10. Ensure that cleaning standards have been established in the operations department. Cleaning standards that include specific tasks and timelines for each custodian can often reduce costs.
11. Ensure that policies and expenditures for the use of cellular telephones have been reviewed.
12. Review utility costs and alternative programs for potential cost savings.
13. Review all capital leases and certificates of participation (COPs) and evaluate current interest rates for refinancing and to reduce debt service.
14. Review the college's credit card policy and consider eliminating the use of credit cards.

Multiyear Financial Forecasting

15. Keep multiyear financial projections up to date and use them to guide ongoing financial decisions.

Prepare for Reduction in Force (RIF)

16. It is likely that community colleges with a declining rate of enrollment growth will be required to consider and prepare for a RIF that would go into effect at the beginning of fiscal year 2008-09 if implemented. Preparation should include distribution of layoff notices by the required date. Community colleges will also need to remain in compliance with the 50% law if layoffs are implemented. Notice that FCMAT references this impact for colleges with *a decline in the rate of enrollment growth*. In FCMAT's view, this means that this is an issue not only for colleges with flat or declining FTES but also for those that may not be growing as quickly as projected or as quickly as they have in previous years. Colleges simply cannot afford to be overstaffed in this economic environment. If an assessment indicates the need for a RIF, get up to speed on the process and get the college's seniority list in order.

Community colleges and community college districts should strive to keep their governing boards, staffs and communities informed regarding college finances. As is always the case, good communication is one of the keys to surviving in uncertain economic times.

Because each community college has a unique combination of services, programs and mission statements, a one-size-fits-all template does not work for budget reductions, cost containment strategies or other adjustments. Although there is no definitive list of procedures that all community colleges should follow when identifying areas to assess and maintain solvency, many of the items identified in this alert are common to all. Continue to visit the FCMAT Web site (www.fcmat.org) for updates to this document.

On September 28, 2005, Governor Schwarzenegger signed into law Assembly Bill (AB) 1366 (Lieber, D-Mountain View), which enhances fiscal accountability in higher education by authorizing the Board of Governors of the California Community Colleges or a community college district to request the Fiscal Crisis and Management Assistance Team (FCMAT) to assist a community college in need of fiscal management review. AB 1366 has expanded FCMAT's role in assisting California's community college districts for the foreseeable future. If your district needs management assistance, please visit the FCMAT Web site at www.fcmat.org.

