

Fiscal Review of the

California Partnership

for Achieving Student Success

(Cal-PASS)

Prepared By:



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October 16, 2009

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Dear Mr. Racheter:

This report summarizes the results of our fiscal review of the California Partnership for Achieving Student Success (Cal-PASS). This review covers the California Community Colleges Chancellor's Office (CCCCO) Cal-PASS grant funds for fiscal year 2007-08. We recommend that the CCCCCO require Cal-PASS to report their progress in implementing this reports' 29 recommendations quarterly, until all recommendations are implemented or otherwise satisfied.

During the last several months, MGT of America, Inc. researched, analyzed, and evaluated data pertaining to the use of CCCCCO funds by Cal-PASS. We have applied due care and diligence, ensuring that the review meets its scope as specified by the CCCCCO. We have made our findings and recommendations based on material gathered during the review.

We would like to thank district, auxiliary, and Cal-PASS staff for their cooperation and willingness to provide information and data throughout this fiscal review.

If you wish to discuss the report, please contact me at (916) 443-9236 extension 4505.

Sincerely,

A handwritten signature in black ink, appearing to read "Tyler Covey". The signature is written in a cursive, somewhat stylized font.

Tyler Covey
Principal

cc: Mr. Stan Schroder Director, GCCCD Auxiliary
Mr. Brad Phillips, Cal-PASS Executive Director
Ms. Sue Rearic, Vice Chancellor Business Services

Enclosure

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Executive Summary

The California Community Colleges Chancellor's Office (CCCCO) contracted with MGT of America, Inc. (the review team) to conduct a fiscal review of its California Partnership for Achieving Student Success (Cal-PASS) grant for fiscal year (FY) 2007-08. In general, the CCCCCO directed the review team to identify all Cal-PASS funding sources, and to assess Cal-PASS expenditures of CCCCCO grant funds.

The review team presents in this report, 18 findings and 29 recommendations organized into three subsections that include:

1. Control and Oversight
2. Policy and Procedure
3. Grant Comparisons and Nonprofit Benchmarks

As discussed below, the review team found a variety of issues including some weaknesses in internal controls and monitoring, overly complex or inadequate policies and procedures, and a lack of nonprofit performance metrics.

Control and Monitoring

The review team found that Cal-PASS did not include all staff salaries in its financial statements because the Grossmont-Cuyamaca Community College District (district) employed and paid for two Cal-PASS executives—even though they worked full-time for Cal-PASS. Without these salaries, the financial statements may be misleading. The review team also found one instance of out-of-state staff travel paid for with CCCCCO funds that lacked the requisite advance approval from CCCCCO. Although the funds were reportedly repaid, Grossmont-Cuyamaca Community College District Auxiliary (auxiliary) staff were unable to provide a copy of the refund check or related accounting entries.

The review team found other areas where increased control and oversight would allow Cal-PASS to better conform to the CCCCCO grant agreement. For example, Cal-PASS can improve its oversight of gift cards used for honoraria, can include more detail in its general contractor agreements, and should obtain approval from the CCCCCO for all subcontractors.

Policy and Procedure

The review team found that current purchasing card policies and procedures were overly complex and created redundant work for Cal-PASS, the auxiliary, and the district. Specifically, the current policy creates a parallel business process between the district and the auxiliary which causes double-handling and increased workload—especially for auxiliary staff. The auxiliary's method of accounting for purchasing cards reduces the transparency in the general ledger because of the "bill to" system, which consolidates multiple transactions as a single line item in the auxiliary general ledger—making monitoring and review more difficult.

The review team also found that Cal-PASS and the auxiliary can improve travel policies and procedures to better conform to Internal Revenue Service (IRS) guidelines and increase transparency. For example, current travel expenditure documents are not always clear regarding the purpose or duration of travel. Staff also use varying travel reimbursement forms which make travel information inconsistent and sometimes more difficult to justify and verify.

Grant Comparisons and Nonprofit Benchmarks

The review team also found that Cal-PASS can improve reports to its funders by including comparative expenditure analysis between grants—to better demonstrate the program's value and the equity in expenditures between funding sources. For example, when the review team examined Cal-PASS travel expenditures, charges to the CCCCO grant appeared exorbitant. However, upon comparing these expenditures with travel expenditures in other grants as percentages of total grant funding, the CCCCO grant expenditures appeared reasonable.

The review team also found that Cal-PASS does not publish key nonprofit benchmarks. Nonetheless, Cal-PASS and the auxiliary appear as if they would compare favorably to national benchmarks for administrative overhead.

Introduction

Background

Cal-PASS aims to promote student achievement. Through collection, analysis, and review of student assessment data, it identifies opportunities for educational improvement and develops remediation measures. Cal-PASS collects student achievement data as students' progress through the educational system from kindergarten to university. More than 7,500 institutions participate in Cal-PASS. Their participation allows them access to student achievement data, research reports, and curriculum standards. Student data is encrypted, to protect student privacy and only particular graduating classes, institutions, and disciplines are identified. In the 2006-07 academic year, Cal-PASS received 97 research requests and produced 80 reports, and in 2007-08 Cal-PASS received 67 requests and produced 77 reports. Participants will be able to build their own reports on the Internet using a revised Cal-PASS report-building interface.

Cal-PASS has experienced steady growth in the number of participating institutions. At inception, in 1998 Cal-PASS was active in one southern California County. By 2003, five counties participated, and by 2009, all 58 counties in California were participating. Similarly, Cal-PASS's expenditures have grown from approximately \$500,000 in FY 2002-03 to more than \$3 million in FY 2008-09. Future Cal-PASS plans include seeking workplace data from the California Employment Development Department to provide data on workplace achievement, ensuring uniformity of grading in participant institutions, and improving data validity and reliability.

Governance

Cal-PASS is a program of the auxiliary, which is a nonprofit 501(c)(3) organization associated with the district. The Director and GCCCD Auxiliary manages the auxiliary and discharges duties associated with an executive director position. The auxiliary oversees Cal-PASS and other programs and provides board-level oversight and administrative, accounting, and human resources support. The governance model is depicted in Figure 1.

Cal-PASS is led by a two-person executive team and organized around the following four functional areas:

CAL-PASS COVERAGE

Cal-PASS has 7,500 partner institutions:

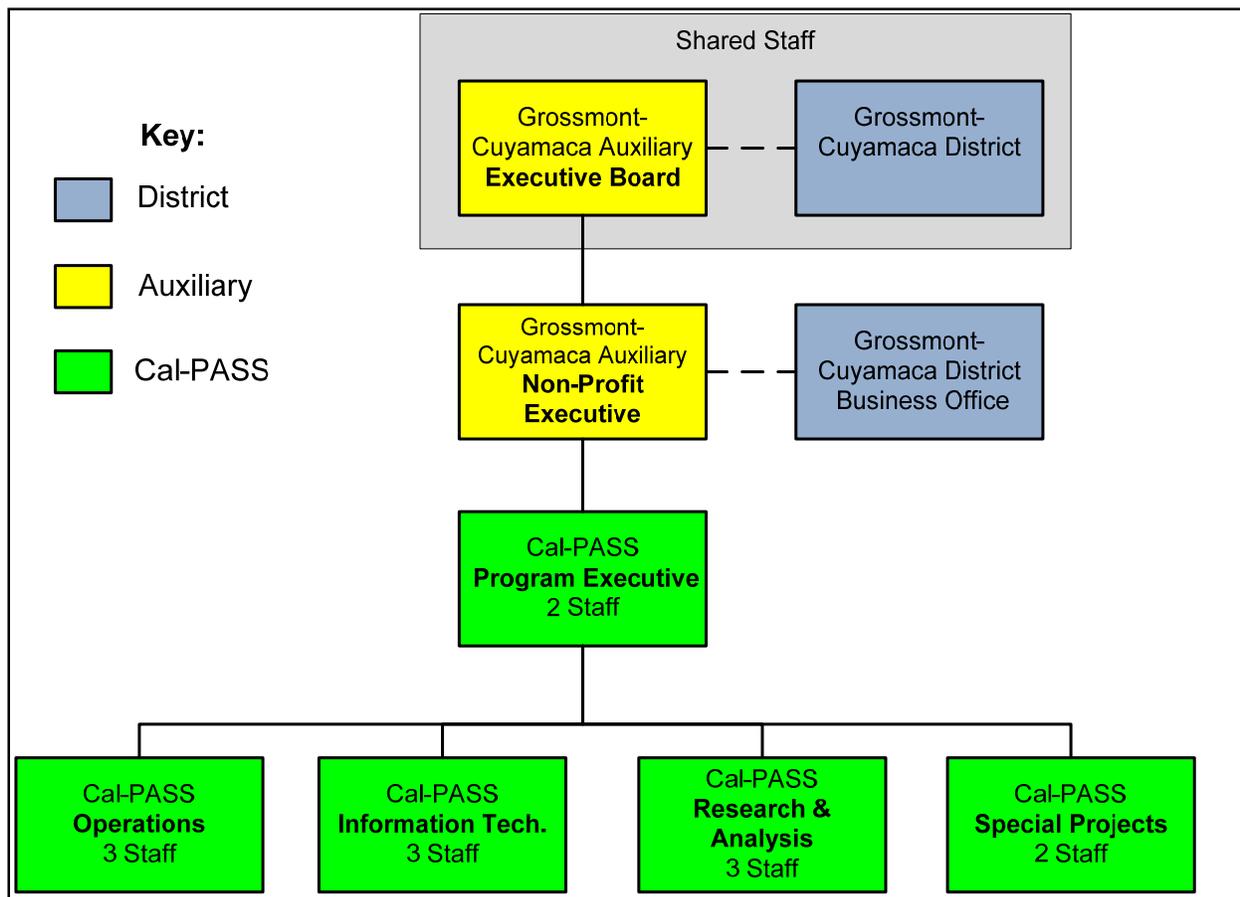
- ◆ 58 counties
 - ◆ 381 K-12 school districts
 - ◆ 110 community colleges
 - ◆ 31 universities
- (As of July 2009)

California has 10,506 institutions:

- ◆ 9,846 schools
 - ◆ 435 accredited two-year study institutions (community colleges, trade schools, etc.)
 - ◆ 225 accredited four-year institutions (universities, colleges, etc.)
- (As of August 2009)

- ◆ Operations.
- ◆ Information technology.
- ◆ Research and analysis.
- ◆ Special projects.

Figure 1—Cal-Pass Governance Structure



Source: Derived from Cal-PASS presentations and interviews with staff office and staff locations.

Office and Staff Locations

Cal-PASS offices are located throughout the state of California and are staffed by one or two staff members each. The four office locations are:

- ◆ Encinitas—main office.
- ◆ Grass Valley.
- ◆ Long Beach.
- ◆ Capitola.

Remaining Cal-PASS staff are in home offices at four other locations marked on the map shown at Figure 2. The auxiliary is located on the Grossmont College campus in El Cajon, which is also marked on the map.

Despite wide geographical distribution, staff coordination does not appear to be an issue. The Cal-PASS executive director stated that it is beneficial for Cal-PASS to have staff throughout the state for better access to existing and prospective partners. In addition, staff with home offices help to reduce office expenses.

Figure 2— Cal-PASS and Auxiliary Staff Locations



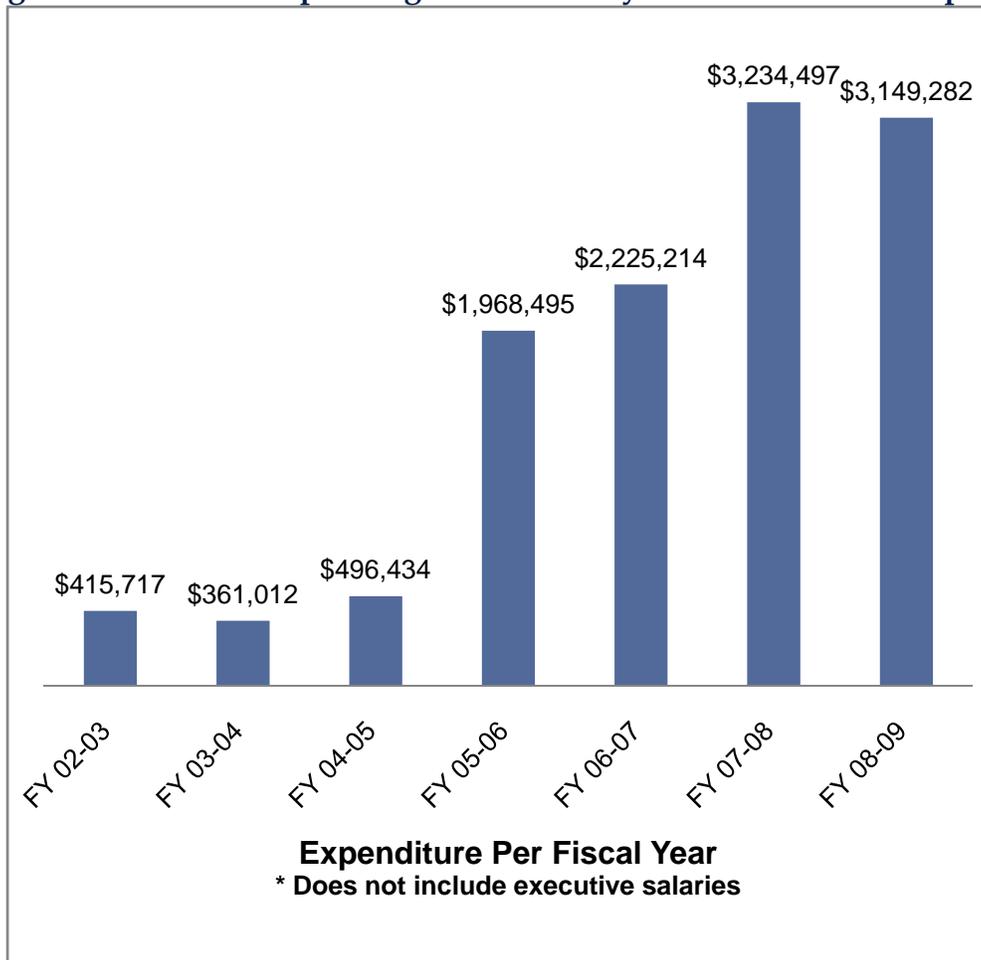
Source: Cal-PASS staff contact list.

Funding

Funding Growth

Charting expenditure growth, as shown in Figure 3, is one indicator that the Cal-PASS funding and donor base has grown significantly since the program's inception.

Figure 3—Cal-PASS Spending Has Generally Increased Since Inception



Source: Data provided by the director and GCCCD Auxiliary.

Funding For FY 2007-08

During FY 2007-08, the auxiliary administered funds on behalf of Cal-PASS from 9 funders over 14 projects totaling more than \$3.9 million, as listed in Figure 4. The CCCCO provided a significant proportion, 68 percent of the total funding Cal-PASS receives, as shown in Figure 4. The remaining funds come from private donors and are listed in Figure 4.

Figure 4—Cal-PASS Funding Sources FY 2007-08

Funder	Contract Amount	Percent of all Funds
Community Colleges Chancellor's Office 11-10-07 to 6-30-09	\$866,862	22%
Chancellor's Office 2-1-08 to 6-30-08	\$69,752	2%
Chancellor's Office 9-1-07 to 8-31-08	\$1,757,412	44%
Chancellor's Office Total	\$2,694,026	68%
Girard Foundation	\$68,207	2%
MDRC (previously known as the Manpower Development Research Corporation)	\$40,000	1%
Stuart Foundation	\$28,600	1%
Teachers College	\$100,000	3%
James Irvine Foundation—grant 1	\$25,000	1%
James Irvine Foundation—grant 2	\$90,000	2%
James Irvine Foundation Total	\$115,000	3%
Rosalinde and Arthur Gilbert Foundation - 1	\$100,000	3%
Rosalinde and Arthur Gilbert Foundation - 2	\$125,000	3%
Rosalinde and Arthur Gilbert Foundation Total	\$225,000	6%
William and Flora Hewlett Foundation—1	\$100,000	3%
William and Flora Hewlett Foundation—2	\$380,000	10%
William and Flora Hewlett Foundation Total	\$480,000	13%
Walter S. Johnson Foundation	\$200,000	5%
TOTAL	\$3,950,833	

Source: The director, GCCCD Auxiliary, and Vice Chancellor of the Business (District) Office

CCCCO Funding to Cal-PASS

CCCCO grant funding totals \$4 million, with \$2 million each year allocated for fiscal years 2006-07 and 2007-08. These funds were intended for purposes that meet the following grant objectives:

1. Promote statewide intersegmental change to improve student transition.
2. Enhance data and research support infrastructure.
3. Foster intersegmental councils.
4. Evaluate Cal-PASS outcomes.
5. Increase resources.

The first four objectives are program specific and relate directly to Cal-PASS operations. Objective five focuses on liaison, fundraising, and partnership development which for many nonprofits is a nonfunded executive or headquarters function. Cal-PASS is fortunate to have this critical function funded by the CCCCCO grant.

Expenditure Comparison Between Grants

To determine if there was a difference in how funds were expended between CCCCO funds and the other grants, we reviewed the general ledger and categorized expenditures into one of five categories, as shown in Figure 5. We found no significant difference between the CCCCO grant and other grants. The CCCCO grant supports offices and associated costs. These expenditures are in accordance with the grant agreement, which allocates a larger percentage of funding to the category of offices, equipment, and overhead.

Figure 5— CCCCO Expenditures Are Similar to Other Grant Expenditures

Expense Categories	Expenditure Percentages	
	CCCCO Grants	Other Grants
Contracts/Miscellaneous	27%	26%
Offices, Equipment, and Overhead	10	5
Operational	4	5
Salaries and Allowances	52	54
Travel and Food	8	10

Source: The FY 2007-08 auxiliary general ledger.

Given grant objective five, which includes fundraising and liaison services, we might have expected to see higher percentages of CCCCO grant funds expended for travel, salaries to cover liaison, and fundraising; however, this was not the case. As such, it appears that Cal-PASS is carrying out these functions and using these funds economically.

Scope and Methodology

The Butte Glenn Community College District, acting as a fiscal agent of the CCCCO, contracted with MGT of America, Inc. (MGT) to conduct a limited scope fiscal review of the Cal-PASS program for FY 2007-08.

Scope

The CCCCO directed MGT to perform the following tasks:

- ◆ Review all funding sources for Cal-PASS in FY 2007-08.
- ◆ Review CCCCO expenditures in comparison to other grants.
- ◆ Analyze CCCCO expenditures in comparison to the CCCCO grant agreement.
- ◆ Prepare and present the draft and final reports.

Methodology

MGT undertook the review in five phases:

Phase 1—Review Initiation and Background Survey. MGT established contact with district, auxiliary, and Cal-PASS staff and explained the scope and structure of the review. MGT undertook primary research and reviewed documents relevant to Cal-PASS.

Phase 2—Preliminary Survey. MGT requested and received a range of information from the district and reviewed it prior to the on-site visit.

Phase 3—Fiscal Review On-Site. MGT staff travelled to El Cajon, California and introduced the review scope and process to the district business manager, auxiliary director, and Cal-PASS executive director. MGT staff also completed these tasks:

- ◆ Reviewed 39 transactions across 15 object codes in the auxiliary general ledger. This involved matching expenditures in the general ledger to receipts, invoices, or purchasing cards statements, and matching those against auxiliary bank statements.
- ◆ For five staff with purchasing cards, reviewed most of the 2007-08 purchasing card monthly statements and associated expense claims.
- ◆ Reviewed key documents, such as employment contracts, employee handbooks, travel policies, grant agreements, lease agreements, auxiliary reviews, and Cal-PASS external program evaluations.
- ◆ Interviewed several district, auxiliary, and Cal-PASS staff.

Phase 4—Fiscal Review: Off-Site Analysis. We analyzed the general ledger using Automated Command Language (ACL) and Microsoft Excel. We also requested further information from auxiliary and Cal-PASS staff on a number of occasions. The purchasing

card accounting process forced the review team to manually review purchasing cards statements and constrained our ability to use automated analysis tools, although it did not detract from our analysis and subsequent findings.

Phase 5—Final Report. MGT issued a draft report to Cal-PASS for its review and suggestions. To the extent that the review team agreed with the suggestions and had adequate evidence in support, the review team made revisions to the report.

Review Results

Findings and Recommendations

To focus attention on the key themes that emerged during the review, we have grouped findings and recommendations into three areas:

- ◆ Control and Oversight
- ◆ Policies and Procedures
- ◆ Grant Comparisons and Nonprofit Benchmarks

Control and Monitoring Findings and Recommendations

This section examines the role that monitoring and control measures have in the financial and operational performance of Cal-PASS.

Finding 1: *The auxiliary did not include executive salaries in its financial statements for FY 2007-08.*

The auxiliary reported FY 2007-08 expenditures of \$1,971,723 for the CCCCO grant in its general ledger for Cal-PASS. However, this amount does not include \$292,529 of executive compensation, which was paid by the district to executive employees using CCCCO grant funds (prior to the district allocating CCCCO grant funds to Cal-PASS).

Because executive staff allocated their time to Cal-PASS full-time and were 100 percent funded by CCCCO, their salaries should be reflected in Cal-PASS expenditures. Excluding the executive salaries from the Cal-PASS general ledger results in a 15 percent understatement of Cal-PASS expenditures in its financial statements and may inadvertently make the program appear more attractive to public and private funders.

In addition, excluding these salaries can lead to a reduction in the Cal-PASS recoupment of its overhead costs—depending on how expenditures are allocated between administrative overhead and program costs. Most grants allow Cal-PASS to recover its overhead costs based on a percentage of expenditures. For example, the CCCCO grant allows Cal-PASS to charge 4 percent of expenditures for overhead. However, increased overhead costs can impact performance measures and may influence some funder support.

Recommendation 1: *The auxiliary should include all Cal-PASS expenditures in its general ledger.*

Capturing and reporting all program expenditures in the general ledger better ensures that related financial statements are complete and accurate.

The review team notes that the auxiliary does plan to include executive salaries in its general ledger for FY 2009-10.

Finding 2: Cal-PASS did not seek or obtain approval from CCCCCO for out-of-state travel paid for with CCCCCO grant funds.

The Cal-PASS executive director travelled to Austin, Texas on June 22, 2007, for a meeting. The general ledger reflected that the related travel expenditures and salary were charged to the CCCCCO grant. The CCCCCO grant agreement states that the CCCCCO project monitor must approve all grant-related, out-of-state travel in advance. The grant agreement also states that funds are limited to grant objectives and that approval is required for any objective amendment. However, the CCCCCO project monitor did not approve the travel to Austin.

When the review team asked about these travel expenditures, the auxiliary director stated that CCCCCO funds were used to cover the expense initially; however, he stated that the CCCCCO grant was reimbursed for the Cal-PASS executive director's travel by the organization that benefited from the travel. However, the auxiliary director could not provide a copy of the refund or related accounting entries showing that the CCCCCO grant was reimbursed. In any event, even if the CCCCCO grant was reimbursed, Cal-PASS should not use the CCCCCO funds for out-of-state travel that is not approved by the CCCCCO monitor in advance.

Another weakness we identified was there did not appear to be a formalized means of requesting out-of-state travel. The Cal-PASS executive director stated that in the future he would make an out-of-state travel request by e-mail.

Recommendation 2-1: The auxiliary and Cal-PASS should not use CCCCCO grant funds for any activity beyond what is specified in the grant objectives.

Even if funds are repaid to the grant, the CCCCCO grant does not have the provision for funds to be used for nonapproved, out-of-state travel, or any other non-CCCCCO purpose.

Recommendation 2-2: Cal-PASS staff should develop and follow an appropriate process for obtaining approval for any CCCCCO grant-related, out-of-state travel.

The approval process could be as simple as an e-mail template addressed to the project monitor that clearly lays out the travel destination, grant-related purpose, and total cost.

Exemptions for approval should be granted to areas close to the California border where out-of-state students regularly attend California institutions. Two examples include Reno, Nevada, and Medford, Oregon, as many students from these locations attend California educational institutions.

Finding 3: The CCCCCO project monitor did not approve Cal-PASS subcontractors.

The grant agreement between Cal-PASS and CCCCCO stipulates: "Grantee agrees to obtain written approval of the project monitor prior to the selection of subcontractors or sub grantees to perform services under this grant agreement..." The CCCCCO grant budget does, however, include funds for "Coordinators," and for "Chairs of Professional Learning Councils," who are subcontractors, although these budget line items are not approvals for the specified contractors; rather they are budget allocations for two specific types of subcontractors. However, the review

team found that the CCCCO project monitor has not approved any of the subcontractors hired by Cal-PASS to work on CCCCO grant-related activities.

Because approval was not sought for subcontractors, the CCCCO project monitor had no knowledge of the use of subcontractors until they reviewed the Cal-PASS progress and yearly reports. This situation can hamper and delay the project monitor's ability to adequately oversee these contracts for up to five months past the start of the fiscal year. This may be of greater concern to CCCCO especially given the high profile nature of the Cal-PASS program and the current fiscal environment in California.

The review team also noted there was no dedicated space on the auxiliary's independent contractor agreement to record the approval of the CCCCO project monitor. Even if the contract was approved by CCCCO, there is no space to note their approval on the agreement.

Recommendation 3: The auxiliary and Cal-PASS should seek and document approval for all subcontracts related to CCCCO grants until directed otherwise by CCCCO.

Notwithstanding the grant agreement, it would appear difficult, if not overly time consuming for the CCCCO project monitor to review and approve every subcontract or subgrantee for the Cal-PASS program. Therefore, CCCCO should consider delegating certain contract approvals to the auxiliary under a specified amount, or specified object codes. This could be achieved by setting a limit such as \$10,000 on all contracts. Contracts under \$10,000 could be approved the auxiliary director rather than sending them to the project monitor for approval in advance of executing the agreement. The project monitor could also require that subcontracts under \$10,000 be sent for review after execution.

Finding 4: Cal-PASS has discussed forming its own nonprofit organization.

The auxiliary director and the Cal-PASS executive director stated that consideration has been given for Cal-PASS to form a separate 501(c)(3) nonprofit. The Cal-PASS executive director stated this was in relation to specific funder programs in the Los Angeles, California area.

There are costs and benefits to forming a separate nonprofit. Benefits include Cal-PASS forming its own board, determining its own future and breaking the linkage with a government entity, and perhaps increasing its perceived independence and objectivity. However, Cal-PASS would likely need to find funding to replace services that the district and auxiliary currently fund. In addition, key staff would be diverted from program activities because they would also need to oversee Cal-PASS administrative functions.

Recommendation 4: The Cal-PASS executive director should coordinate with major funders and stakeholders to determine what governance arrangement would best serve Cal-PASS and meet stakeholder needs.

The costs and benefits associated with the current governance structure should be further explored with all stakeholders, especially at CCCCO, before Cal-PASS forms a separate nonprofit.

Finding 5: Some travel claims for hotel expenses were high.

The review team found some instances of significantly higher hotel expenses on travel claims than appeared appropriate—however, the expenses were not charged to the CCCCO grants. Nevertheless, Cal-PASS staff did not document explanations for the high hotel rates and no evidence existed that staff took advantage of any nonprofit or government rates for which they may have been eligible.

We compared the Federal General Services Administration (GSA) rate and the Cal-PASS rate for the same locations. Examples of two rates are shown in Figure 6.

Figure 6—Cal-PASS Hotel Expenditures Higher Than GSA Rates for the Same Location

Hotel Location	Cal-PASS Expenditure	Maximum Current GSA Rate
Austin, TX	\$239	\$114
Roseville, CA	\$169	\$103
Maui, HI	\$189	\$115

Source: The FY 2007-08 auxiliary general ledger and the GSA Internet site.

The higher costs may be due to late bookings or a conference package in a particular hotel, or because a partner was staying in the same hotel. These reasons may be valid; however, they should be documented. Excessive spending on travel leaves fewer funds for programs, and can result in a negative public perception that staff are spending excessively compared to standard public-sector standards.

Recommendation 5-1: Cal-PASS should set a cost ceiling on room rates in accordance with the GSA schedule.

Cal-PASS staff should review the GSA Internet site and book rooms in accordance with GSA rates. If there were extenuating circumstances, such as a lack of availability or proximity to a conference, then a request to exceed the cost cap could be sent to and approved by the Cal-PASS executive director and documented with the travel expense claim.

Recommendation 5-2: Cal-PASS staff should seek government or corporate rates on all hotel bookings.

Government and group rates can be significantly lower than general public rates at many hotels. While this is not always the case, staff should investigate group rates when they book travel.

Finding 6: Cal-PASS used inconsistent practices to account for gift cards provided as incentives for Professional Learning Council (PLC) members.

Cal-PASS purchased \$28,654 of bookstore gift cards worth \$25 each with CCCCO funds and distributed these to PLC members as incentives. In some cases, gift cards were accounted for by signatures on a Microsoft Excel spreadsheet, and in other cases, the cards were distributed without signatures, but were collectively accounted for at the end of each event using attendance rosters.

The California Constitution, Article 16, Section 6, prohibits making gifts of any public funds. The state must receive commensurate value whenever its resources are used, including time, equipment, materials, supplies, and facilities. Gift cards, by their nature, are more susceptible to misappropriation or theft. Therefore, Cal-PASS staff must take great care in using and accounting for items such as gift cards.

Incentives using public funds are allowed in certain cases if the expenditure is for a public purpose related to a public body, even though individuals may benefit. This appears to be the case for PLC participants, as they are required to attend meetings and in some cases work to develop remediation measures.

Cal-PASS has a policy for honoraria for participants in PLCs. This policy lists procedures for issuing and accounting for Barnes and Noble® gift cards. However, the policy does not address the difference between gifts, incentives, and honoraria. This distinction is important because staff with responsibility for cards should understand and inform participants that the card is an honoraria payment and not an incentive or gift. This is especially important because the card is labeled as a “gift card.” If incentive payments were found to be gifts by funders or the IRS, there could be significant financial implications for the auxiliary and for Cal-PASS.

The policy lists four steps to issue and account for gift cards. However, the policy lacks detail, and gives the staff member that allocates the cards responsibility for accounting for them. This lack of segregation of duties in the distribution and accounting for a highly liquid asset can increase the organization’s susceptibility to theft or misappropriation. Separating the card issuing and accounting roles would add an important control to the system and remove full financial responsibility from any single staff member.

Although gifts or incentives are useful tools, some evidence exists that they may be unsustainable in longer-term projects because funders either lose interest in making the payments, participants may expect the incentive payments before undertaking activities, or evaluators could question the participant’s motivations.

Recommendation 6-1: The auxiliary should include an explanation in its policies of the distinction between, gifts, incentives, and honoraria in the honoraria policy document. The PLC participants need to understand this distinction when they receive the cards.

This explanation should include sufficient detail so that regional coordinators can explain the distinction and emphasize the point that the card is an honoraria payment.

Recommendation 6-2: Cal-PASS should segregate the duties of distributing gift cards and accounting for the cards between two individuals.

Collecting PLC members’ signatures for gift cards becomes difficult to track and may reduce the attractiveness of the honoraria. Accounting for cards at the event level by the coordinator is appropriate.

Recommendation 6-3: Cal-PASS should review and continually monitor the use of incentive payments in their programs.

Honoraria payments are useful as motivation; however, some studies have shown that repeated payments may attract the wrong type of participants. Cal-PASS should continually monitor and review the use of honoraria payments and determine how best to apply them.

Finding 7: Auxiliary independent contractor agreements vary in level and type of detail.

All the independent contractor agreements viewed by the review team included a narrative section, which provided an overview of the contracted services and some agreements contained a detailed table of activities, outcomes, costs, time lines, and included detailed invoices. However, some contractors used a signed copy of the agreement as an invoice, which is permissible under auxiliary policy; however, some of these “invoices” lacked detail regarding the contractor’s hourly rate, scope of work, and deliverables. Best practices prescribe that invoices have adequate detail surrounding hourly rates, scope, time line, and deliverables. This type of detail also allows entities to conduct cost-benefit comparisons between professional services. If this detail is not provided, it is difficult to verify that the contractor provided adequate services and to understand or demonstrate the scope and types of services or what value is received for CCCC funds.

Recommendation 7-1: The auxiliary should review its independent contractor agreement templates and be sure to include adequate detail to understand the scope, deliverables, and price.

The following fields should be included in the compensation section of the current independent contractor agreement:

- ◆ Serial number.
- ◆ Procedure/activity.
- ◆ Outcomes/deliverables.
- ◆ Time rate (daily, hourly, etc.).

Recommendation 7-2: The auxiliary should continue to include a detailed overview of the vendor services in the independent contractor agreement under the section “Work to be Performed.”

Finding 8: The auxiliary did not always maintain delivery receipts for purchased equipment.

The review team found one instance—in the small sample of transactions that we tested—where the auxiliary did not maintain a delivery receipt on file for purchased equipment; however, the remainder of the file appeared complete.

The delivery receipt formalizes the receipt of equipment and is an important internal control for accountability and to ensure that only items in good condition are accepted. In addition, some funders require grantees to account for all equipment purchased using grant funds. Because some funders may charge the grantee for unacceptable or unaccounted for equipment, it is important to maintain adequate records for all purchases.

Recommendation 8-1: The auxiliary and Cal-PASS should retain complete delivery receipts for major equipment purchases.

To ensure proper internal controls, the auxiliary should be sure that it segregates the duties of ordering, receiving, and accounting for purchases.

Policy and Procedure Findings

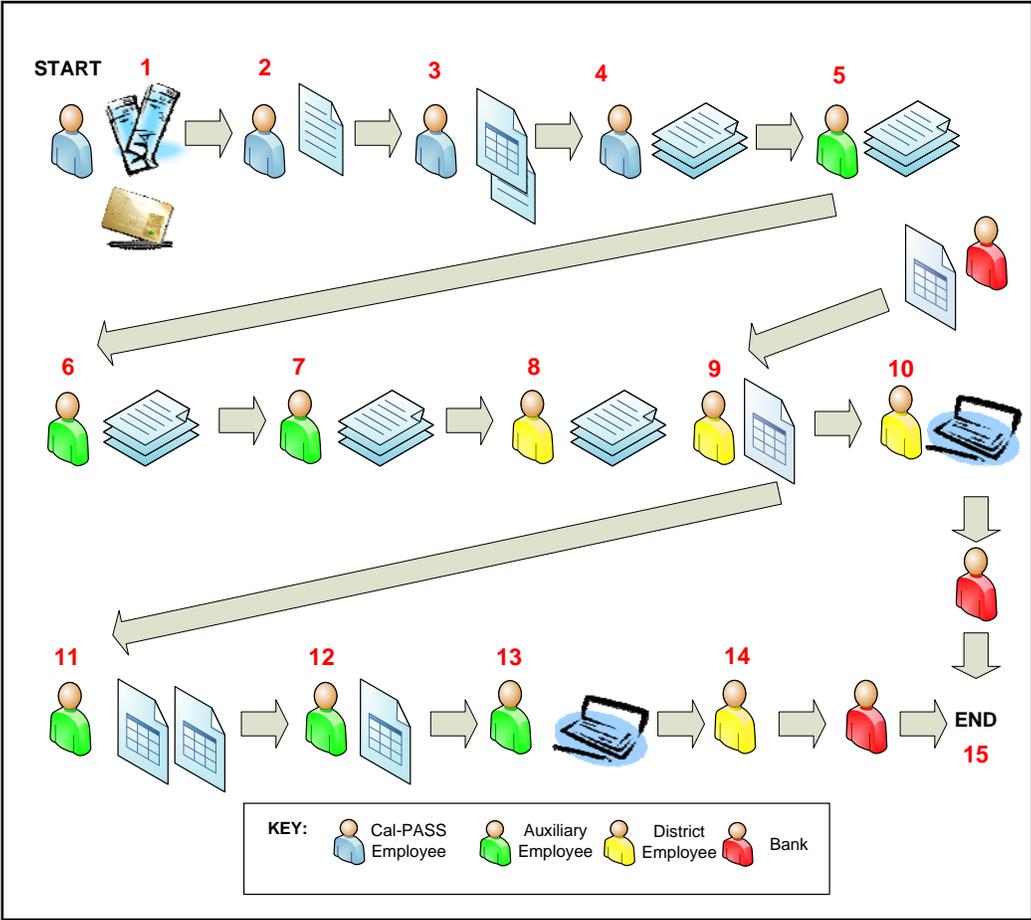
This section examines cause and effect relationships between Cal-PASS' policies and procedures and organizational effectiveness.

Finding 9: The district purchasing card policy for Cal-PASS creates double-handling and increases auxiliary staff workload.

Policy—the district issues purchasing cards to selected Cal-PASS staff based on recommendations from the Cal-PASS executive director.

Process—Figure 7 illustrates an example of the purchasing card business process.

Figure 7—The Cal-PASS Purchase Card Procedure Is Complex



Source: Derived from interviews with auxiliary and Cal-PASS staff and from a submission by the GCCCD director.

Purchase Card Process Steps Example:

1. Cal-PASS employee makes a purchase using the purchase card.
2. Cal-PASS employee downloads or receives purchase card monthly statement.
3. Cal-PASS employee develops a “log” listing each transaction, describing the expense, and allocating a key and object code. Cal-PASS employee sends the log, bank statement, and receipts to the Cal-PASS executive assistant.
4. Cal-PASS executive assistant reviews and compiles all log forms, statements and receipts and sends them to the auxiliary as a single packet.
5. Auxiliary accounting clerk reviews the packet and sends it to the auxiliary director.
6. Auxiliary director reviews the packet and approves by signature.
7. Auxiliary CFO reviews and approves the packet and sends it to the district.
8. District employee reviews and approves the packet.
9. District employee downloads monthly statements from the bank and generates a “bill to” for the auxiliary.
10. District employee pays the bank by check.
11. Auxiliary clerk receives the district “bill to” and compares it to copies of each log form and purchasing card statement. The clerk prepares a check for the district payment.
12. Auxiliary director approves district payment
13. Auxiliary employee sends the district a check for payment
14. District employee banks the check.
15. End process.

Auxiliary staff spend considerable time each month manually reviewing and compiling paper purchase card statements and bank card log forms and developing individual and summary Microsoft Excel spreadsheets. This manual data entry process is also open to error; as with any manual data entry process, error rates range between two and five percent. Although errors can be corrected, the process requires staff to manually review and match paper-based statements to Microsoft Excel spreadsheets to find errors.

Finally, the review team examined 13 purchasing card or district charge transactions in the March 2008 general ledger. However, the review team found that these March entries included all purchase card transactions for September and October 2007. This six-month delay in accounting for purchasing card transactions is directly related to the cumbersome nature of the current purchasing card system.

Recommendation 9-1: The auxiliary and the district should develop a more efficient purchasing card system.

The redundant and manual processes should be eliminated. A new procedure could minimize handoffs, decision making, and manual processes. Process streamlining cannot occur until the current purchasing card policy is changed.

Recommendation 9-2: *The auxiliary should be the purchasing card agent and manage all purchasing cards for Cal-PASS.*

The current double-handling would be eliminated if the purchase cards were held by the auxiliary. Control would be maintained by setting lower spending limits and by restricting some transaction types. The district could still review spending on a monthly basis.

Depending on the card selected, auxiliary staff workload would be further reduced if monthly statements could be downloaded, sorted, compiled, and reviewed electronically.

Controls would also be increased if the Cal-PASS executive director and the auxiliary director could log in to view transactions on a regular basis.

Finding 10: *The process used to account for purchasing card transactions reduces transparency in the auxiliary's general ledger.*

The auxiliary accounting staffs' entries in the accounting records for purchasing card transactions appear as a single line item for each object code (category), even though the line item may represent numerous transactions. In contrast, other general ledger transactions are entered as one line item per transaction—which is consistent with best practices.

For example, in March 2008 there were 82 line items in the auxiliary's general ledger for CCCCCO. The description for 13 of these transactions was "Grossmont-Cuyamaca CCD," which is the description used when the auxiliary reimburses the district for purchase card transactions, or other district charges such as district paid postage or printing. As mentioned previously, these 13 purchasing card or district charge transactions included all purchase card transactions for September and October 2007. As Figure 8 shows, these 13 entries from March 2008 actually represent 534 transactions, rather than the stated 82 transactions. The March general ledger should include 465 purchasing card transactions plus the 69 actual debit transactions.

Figure 8—The Auxiliary General Ledger Does Not Provide Detail for all Transactions—Example March 2008

Transaction Description	General Ledger Transaction Entries	Number of Transactions	
		Actual (from Purchasing Card)	Grand Total
Advertising		3	3
Cat Allow	1		1
Contract and Miscellaneous	14		14
Equipment—Minor	1		1
FICA	2		2
Health	1		1
Incentive	1		1
Meals and Refreshments	2	26	28
Medicare	2		2
Mileage	5	2	7
Off-Site Printing		1	1
Operational Indirect	1		1
Postage/Freight		18	18
Rent and Lease	5		5
Retirement	1		1
Salary—General	5		5
Salary—Short Term	9		9
Salary—Management	3		3
Software Licenses		4	4
SUI	1		1
Supplies	4	62	66
Supplies/Books		2	2
Travel	4	347	351
Utilities	7		7
GRAND TOTAL	69	465	534

Source: The FY 2007-08 auxiliary general ledger and purchasing card cover sheets.

Recommendation 10-1: The auxiliary should include all purchase card line item detail in its general ledger.

Including this level of detail will facilitate transparency and the ability to conduct spending pattern research and analyses.

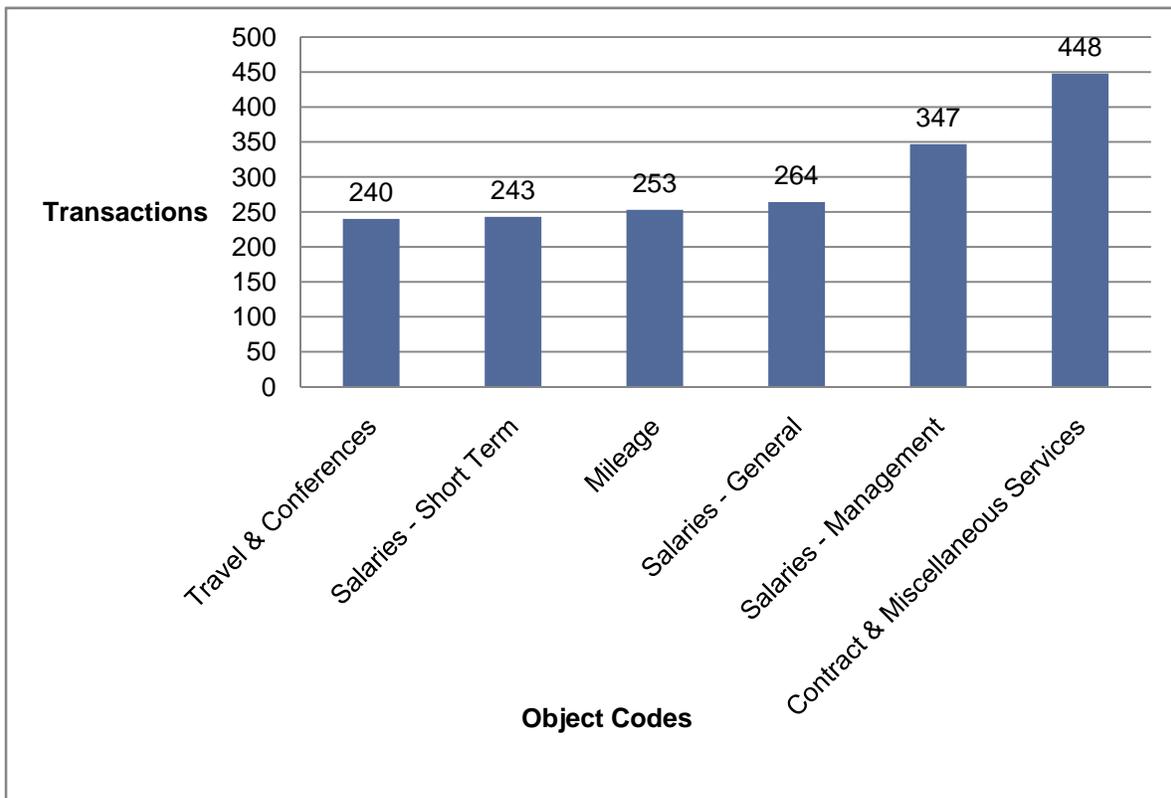
Recommendation 10-2: The auxiliary should develop a system to electronically integrate purchase card data into the general ledger to increase transparency.

To facilitate entering line item detail, accounting staff could download purchase card data and insert the detail into the general ledger as a line item per transaction. Although this may take some time to format, it saves time in the long run by eliminating the need to enter transactions individually.

Finding 11: Object code structure in the general ledger decreases transparency.

To control expenditures between grants, the auxiliary allocates a project and object code to each transaction, which are recorded as a single line in the general ledger. There is an imbalance in the application of object codes in the general ledger. Six object codes account for 58 percent of general ledger transactions, while the other 31 object codes account for the remaining 42 percent of transactions. The six most frequently used object codes are depicted in Figure 9.

Figure 9—Some Object Codes Are Overused



Source: The FY 2007-08 auxiliary general ledger.

When the general ledger includes too many transactions with the same object code, dissimilar transactions are grouped together and transparency is reduced. This also makes the financial statements less useful and can make monitoring more difficult—necessitating reviews of the detail transaction line items to better understand the nature of a group of expenditures.

Best practices dictate that entities create the minimum number of accounts (object codes) for reporting purposes and to utilize subobject codes to distribute transactions at the subobject level, which allows for better electronic analysis and expenditure review.

Recommendation 11: The auxiliary should develop subobject codes, especially for the six most frequently used object codes.

Utilizing subobject codes would allow greater transparency into the general ledger, increase the ease of expenditure monitoring, and allow financial staff to respond to expenditure questions without manual review. For example, the travel and conferences object code could be divided into three subobject codes:

- ◆ Staff travel.
- ◆ Partner travel (grantee, subgrantee, and consultant).
- ◆ Attendance fees.

Finding 12: Some transaction description fields in the general ledger lack detail.

Some descriptions in the auxiliary's general ledger provide no insight into the nature of the transaction. For example, descriptions may name a company or an individual but provide no further detail of the nature of the transaction.

The description field should:

- ◆ Provide an overview of the goods or services.
- ◆ Indicate the scope of the goods and services.

The review team also found that the general ledger descriptions for many items are scant and had to review receipts or invoices to gain insight into the detailed nature of transactions. This was time consuming and would not be possible when examining an electronic version of the general ledger. Poor descriptions also do not facilitate ongoing monitoring and control, because the monitor would need to view actual receipts and invoices to gain insight into transactions.

Recommendation 12: The auxiliary accounting staff should provide more detail in the description field for their transactions.

This detail should include a very brief description of the nature of the goods or services provided along with the name of the vendor.

Finding 13: Cal-PASS staff salaries are either negotiated with the district or established by the auxiliary.

Cal-PASS executive staff negotiate their salaries with the district, while Cal-PASS sets other employee salaries in accordance with the auxiliary's salary scale, which mirrors the district's salary scale. To the extent that their salaries are reported on the auxiliary's tax return, auxiliary employees

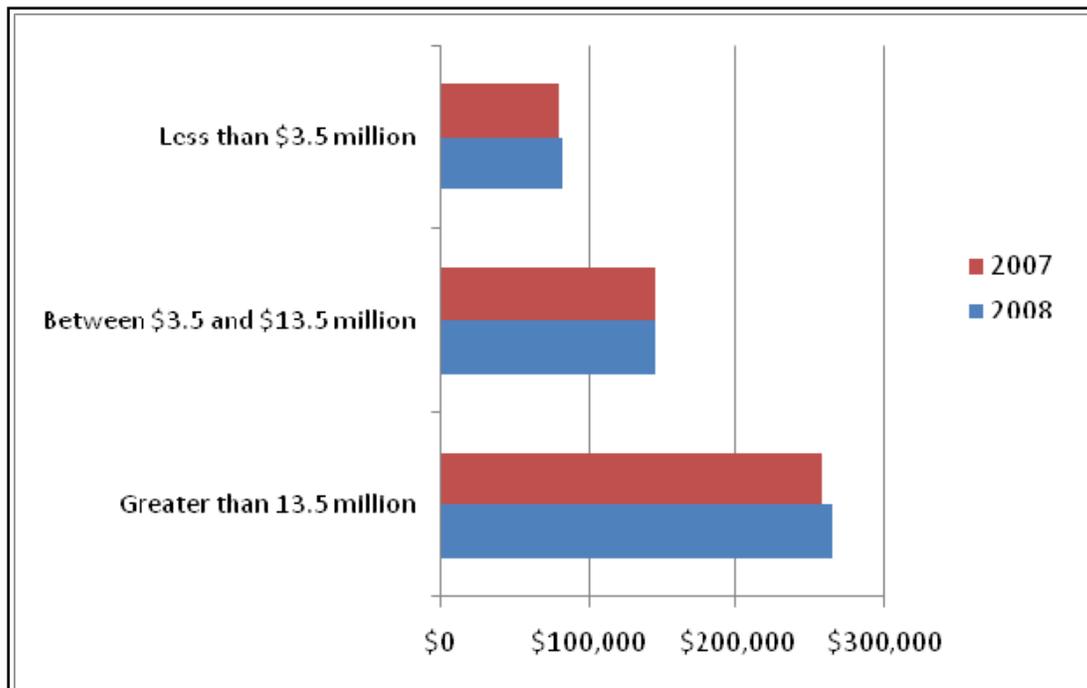
and executive staff are subject to nonprofit salary comparisons. The IRS requires nonprofits, like the auxiliary, to list economic benefits provided to officers, directors, and key employees on tax returns. Nonprofit compensation must also meet a “reasonable compensation” standard, which requires some additional research and documentation. Specifically, if Cal-PASS executive staff were auxiliary employees, they would be subject to the reasonable compensation test, which compares their salaries to at least three salaries paid to staff in other organizations on three main criteria:

- ◆ Like services (for example, type of work, employees managed, scope, budget, functions, etc.).
- ◆ Like enterprises, whether taxable or tax exempt.
- ◆ Like circumstances (for example, budget revenues, type of organization, etc.).

A complicating factor for these comparisons is that Cal-PASS executive staff are subordinate to the auxiliary and may be considered nonexecutive because they are not discharging the full range of executive activities. Cal-PASS executive staff are not directly answerable to a board and do not have financial authority, as both of these functions rest with the Director, GCCCD Auxiliary. Under this scenario, their compensation packages would probably appear high in comparison to other organizations. A further complicating factor is that one Cal-PASS executive holds an operational role, which the IRS may not consider an executive position in comparison to similar positions in other organizations.

If Cal-PASS executive staff were employed by the auxiliary, their salaries would be benchmarked against nonprofits’ salaries. Compared to executive salaries on a national level, based on expenditures, current Cal-PASS salaries are above average. Figure 10 shows excerpts from a 2009 nonprofit chief executive officer (CEO) salary survey.

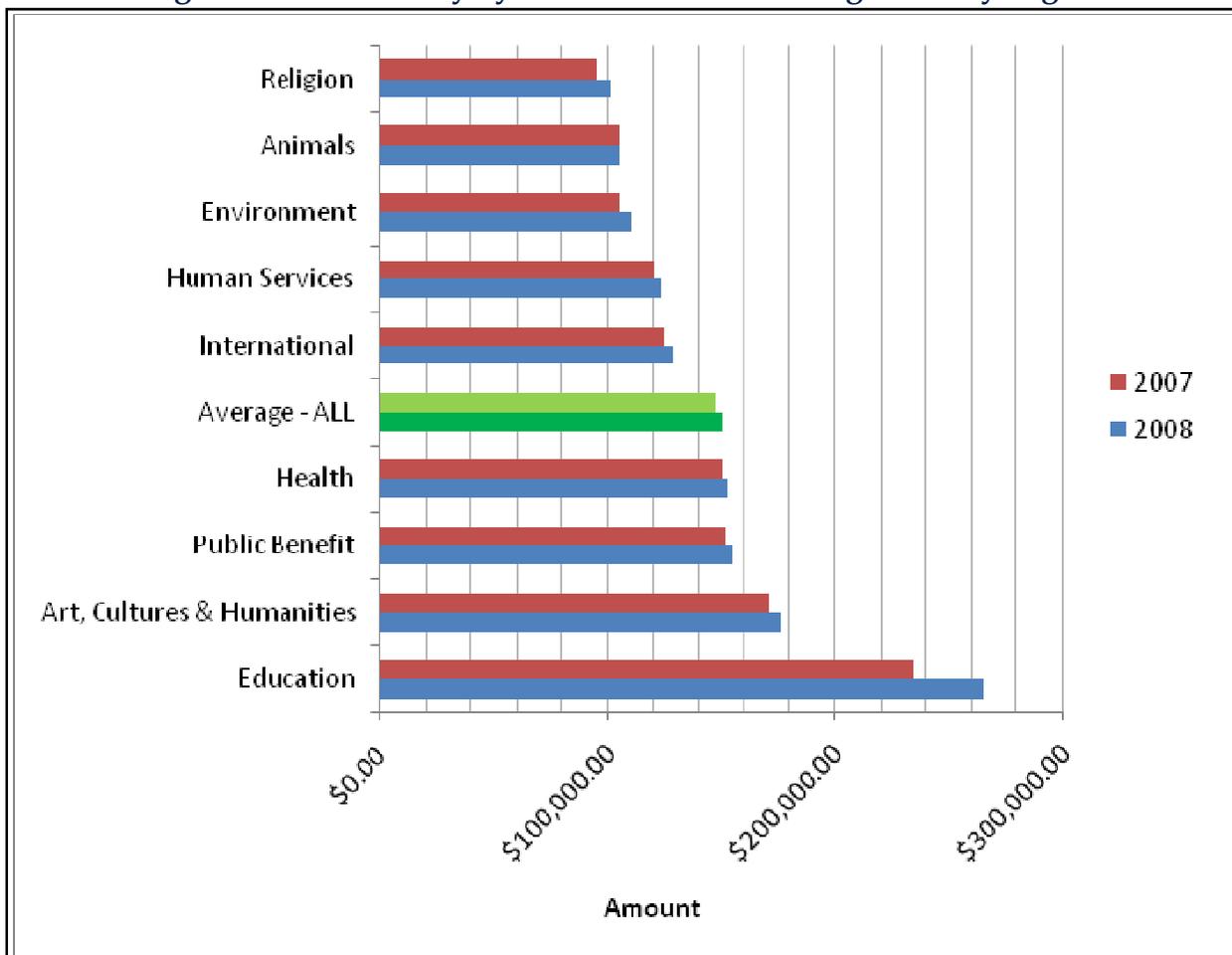
Figure 10—CEO Compensation Correlates to Nonprofit Expenditures



Source: Charity Navigator, CEO Salary Survey, 2009.

Compared to salaries in the education sector; however, Cal-PASS salaries are below average. Figure 11, shows CEO salary by sector.

Figure 11—CEO Salary by Sector—Education is Significantly Higher



Source: Charity Navigator, CEO Salary Survey, 2009.

Setting nonprofit staff salaries requires research and analysis of comparative data, at a detailed level that is outside the scope of this review.

The risk is that the IRS could deem high salaries as inurement—meaning that funds of a nonprofit organization are illegally benefiting a private shareholder or individual.

Recommendation 13-1: The auxiliary should undertake a salary study to document and confirm the executive compensation packages are reasonable.

The Cal-PASS situation is unique. Staff numbers are small and funding is relatively low; however, the program is complex requiring highly qualified and competent staff. Setting salaries in this environment is challenging and requires research and analysis. Cal-PASS staff could use national salary surveys which provide data sorted by zip code for comparison, to conduct the salary study.

Recommendation 13-1: The CCCCO should review salary data for similar programs that it funds and determine if there is salary parity for district and auxiliary staff.

The CCCCO could review its grant-funded programs and benchmark salaries between them. If there is a significant difference between salary levels, the CCCCO should place limits on salaries that can be charged to its grants.

Finding 14: Travel and expense claims policies and forms need improvement.

The current travel policy provides guidance to Cal-PASS staff on reimbursable items, receipts, and the expense claim process. A supplement to the policy provides additional detailed guidance. The policy also gives the auxiliary director discretion to adopt a streamlined travel expense procedure for staff that travel frequently. The streamlined process allows staff to use the monthly bank card log in lieu of travel claims forms. Most of these criteria apply to Cal-PASS staff. We found that most Cal-PASS staff documented their travel on the monthly bank card log forms.

However, there is variation with the bank card forms used, and the level of detail provided by Cal-PASS staff. For example, we found three variations of the monthly bank card log, which can make comparison difficult. The level of written detail provided by staff also varied; for example, detail provided for meals sometimes included the number and names of persons attending the meals, while others' logs included the group name only. In addition, the policy requires that staff claim and provide documentation for small items of less than \$25. Although these claims are appropriate, they increase the reporting requirement and downstream workload for auxiliary staff. Other minor deficiencies noted included purchase card receipts that were not accompanied with itemized receipts for meal claims, meal receipts that lacked descriptions of the attendees or nature of the meal, and missing bank card logs for bank card statements.

The structure of the bank card log form makes entry difficult as it prompts staff for multiple pieces of information but provides a single entry field. The description field prompts users to include, "who, what, when, where," which most staff do, although this tends to make review difficult as the fields are not separated. The form also does not include a time and date section, so it is unclear when travel started and when it ended. This is especially problematic when some trips involve journeys with multiple destinations and tasks.

Another problem is a result of vendors billing the purchase card; however this is beyond the control of the auxiliary and Cal-PASS. Most vendors bill the card within two days, although there are examples of vendors waiting five days. These delays affect the chronology in the purchasing card statement and in the corresponding bank card log form, making travel claims difficult to review and fully understand.

The IRS guidelines for travel expenses are outlined in *Travel, Entertainment, Gift, and Car Expenses*.¹ The publication details what adequate evidence is for travel and entertainment expenses. Key elements include travel destination amount, time, description, and purpose. This information is not readily apparent in current auxiliary bank card logs, although it can be derived in the majority of cases. Further detail on adequate documentation is shown in Figure 12, IRS Travel Expense Guidelines.

¹ *Travel, Entertainment, Gift, and Car Expenses*, Publication 463, dated February 4, 2009.

Figure 12— IRS Travel Expense Guidance

If you have expenses for . . .	THEN you must keep records that show details of the following elements . . .			
	Amount	Time	Place or Description	Business Purpose Business Relationship
Travel	Cost of each separate expense for travel, lodging, and meals. Incidental expenses may be totaled in reasonable categories such as taxis, fees and tips, etc.	Dates you left and returned for each trip and number of days spent on business.	Destination or area of your travel (name of city, town, or other designation).	<u>Purpose:</u> Business purpose for the expense or the business benefit gained or expected to be gained. <u>Relationship:</u> N/A
Entertainment	Cost of each separate expense. Incidental expenses such as taxis, telephones, etc., may be totaled on a daily basis.	Date of entertainment. (Also see <i>Business Purpose</i> .)	Name and address or location of place of entertainment. Type of entertainment if not otherwise apparent. (Also see <i>Business Purpose</i> .)	<u>Purpose:</u> Business purpose for the expense or the business benefit gained or expected to be gained. For entertainment, the nature of the business discussion or activity. If the entertainment was directly before or after a business discussion: the date, place, nature, and duration of the business discussion, and the identities of the persons who took part in both the business discussion and the entertainment activity. <u>Relationship:</u> Occupations or other information (such as names, titles, or other designations) about the recipients that shows their business relationship to you. For entertainment, you must also prove that you or your employee was present if the entertainment was a business meal.
Gifts	Cost of the gift.	Date of the gift.	Description of the gift.	
Transportation	Cost of each separate expense. For car expenses, the cost of the car and any improvements, the date you started using it for business, the mileage for each business use, and the total miles for the year.	Date of the expense. For car expenses, the date of the use of the car.	Your business destination.	<u>Purpose:</u> Business purpose for the expense. <u>Relationship:</u> N/A

Source: The IRS.

Recommendation 14-1: The auxiliary director should introduce a per diem meal payment system to allow better access to the entitlement and reduce auxiliary staff workload.

If staff were given a meal per diem for the time they are travelling, they would not be required to retain, organize, and submit multiple small receipts to the auxiliary, which would reduce the workload for Cal-PASS and auxiliary staff. Meal per diem rates could be set based on either the federal General Services Administration (GSA) rate, which varies depending upon the location and time of year, or by using the flat per diem of \$55, which is the maximum reimbursable rate in the auxiliary travel policy.

Recommendation 14-2: The auxiliary director should revise the bank card log form to include space for the inclusion of key information required by the IRS.

A revised form could more closely correspond to IRS guidelines and include this information:

- ◆ Expenses—travel, entertainment, transportation, or gift.
- ◆ Amount.

- ◆ Departure and return times (for example, date or reference to a particular trip).
- ◆ Place/description (for example, detail on location or event or “head count” for meals included as a prompt).
- ◆ Purpose—tasks for a particular project.
- ◆ Relationship (nonapplicable for travel), detailed information for entertainment.

Finding 15: The auxiliary does not have a conflict-of-interest policy for staff.

The auxiliary director stated that there is no conflict-of-interest policy signed by auxiliary board members or program staff. However, the auxiliary does have a conflict-of-interest policy for its board members.

A conflict-of-interest policy is considered a best practice. The policy’s purpose is to educate the board and key staff on their legal obligations, what constitutes a conflict of interest, and the means to recuse themselves from a decision involving a conflict of interest. All board members and key staff should sign a form acknowledging their receipt and understanding of the organizations conflict-of-interest policies.

The lack of a conflict-of-interest policy can expose the organization to greater legal risk should a conflict of interest arise. In fact, in October 2004, the IRS issued a revised version of its Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code (the Form 1023), which, for the first time, included several questions on conflicts of interest. The form also inquires as to whether the organization adopted a conflict-of-interest policy consistent with the sample policy provided with the form. If the organization did adopt a policy, it is asked to include a copy with its application and to explain how it was adopted (such as by resolution of the board). If no such policy is in place, the organization must describe what procedures it will follow to ensure that conflicts of interest are managed. The form states that, although a conflict-of-interest policy is recommended, it is not required in order to obtain exemption. The instructions do state, however, that “by adopting the sample policy or similar policy, you will be choosing to put in place procedures that will help you avoid the possibility that those in positions of authority over you may receive an inappropriate benefit.” In fact the IRS instructions for Form 1023 state: “The purpose of the conflict of interest policy is to protect this tax-exempt organization's (Organization) interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Organization or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable organizations.” Although Cal-PASS was organized before these provisions, the provisions make clear the importance of setting forth clear policies.

Recommendation 15: The auxiliary should develop a conflict-of-interest policy and have all board members and senior staff sign attesting that they have received and understand the policy.

As discussed above, there are operational and legal reasons why an organization should have a conflict-of-interest policy. Conflicts of interest can impair an organization’s ability to function efficiently and effectively leading to financial consequences, and can also damage its reputation in the community. A conflict-of-interest policy helps to ensure that all board members and officers understand the importance of identifying and avoiding actual and potential conflicts of interest.

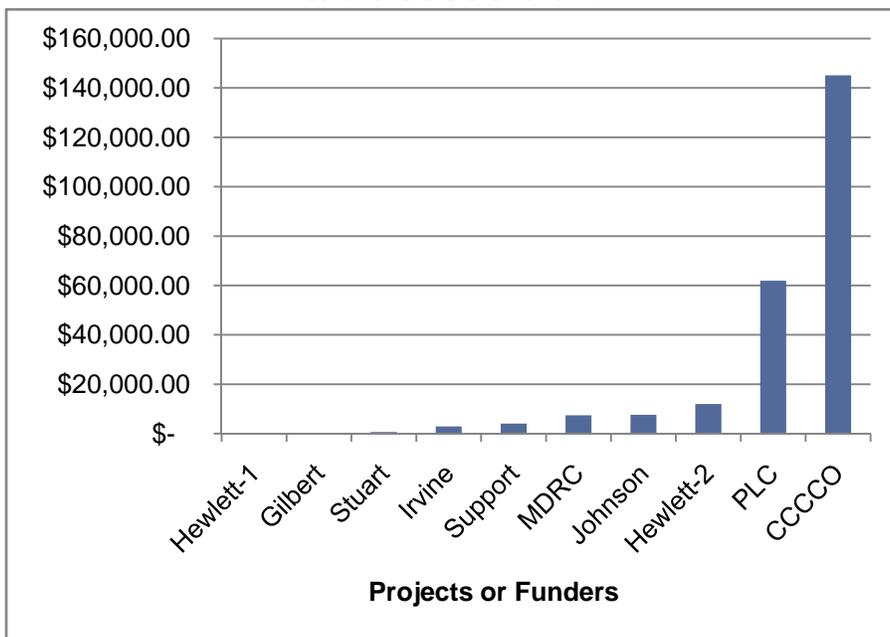
Grant Comparisons and Nonprofit Benchmarks Findings

This section of findings and recommendations examines comparisons between the CCCCCO grant and other grants Cal-PASS receives and also compares Cal-PASS to selected nonprofit benchmarks.

Finding 16: *Travel costs are a major CCCCCO grant expenditure; although these costs are consistent with expenditures for other grants Cal-PASS receives.*

Travel accounted for \$145,149 of CCCCCO grant funds and included travel for employees, consultants, or partners. As shown in Figure 13, this is by far the largest travel expenditure for any Cal-PASS grant.

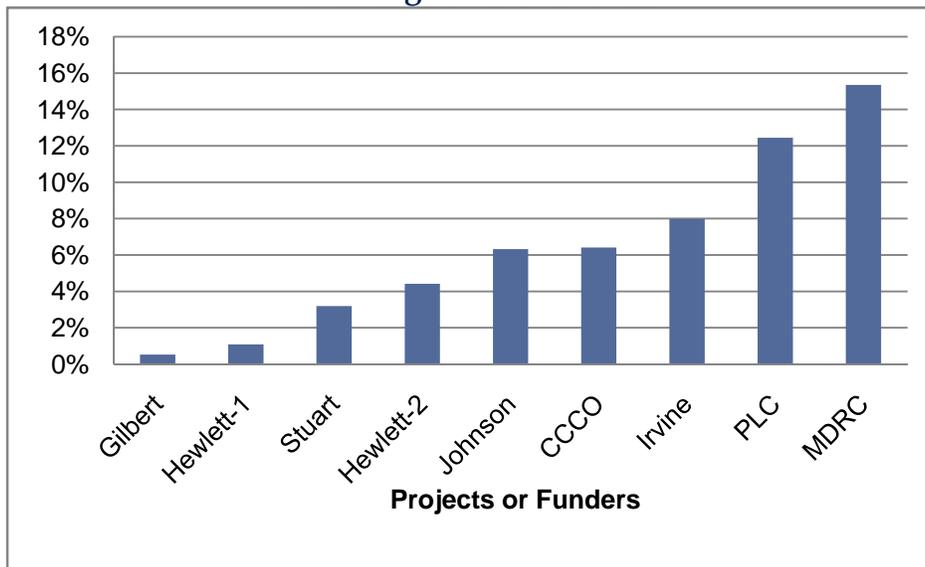
Figure 13—Cal-PASS Charges the Most Travel to the CCCCCO Grant



Source: The FY 2007-08 auxiliary general ledger.

When travel costs are compared as percentages of grant funding, CCCCCO grant travel costs are lower than some grants and equal to the average travel cost of 6 percent, as shown in Figure 14.

Figure 14— CaPASS Travel Spending as a Percentage of Grant Funds



Source: The FY 2007-08 auxiliary general ledger.

Recommendation 16-1: The auxiliary and Cal-PASS should monitor and review travel expenditure trends on a quarterly basis.

Travel is a significant expenditure for Cal-PASS. Any steps to reduce travel costs without detracting from organizational effectiveness would increase value to funders. Quarterly reviews would allow the Cal-PASS executive director to review expenditures, and if expenditures were too high for a quarter, to make adjustments to travel budgets for subsequent quarters.

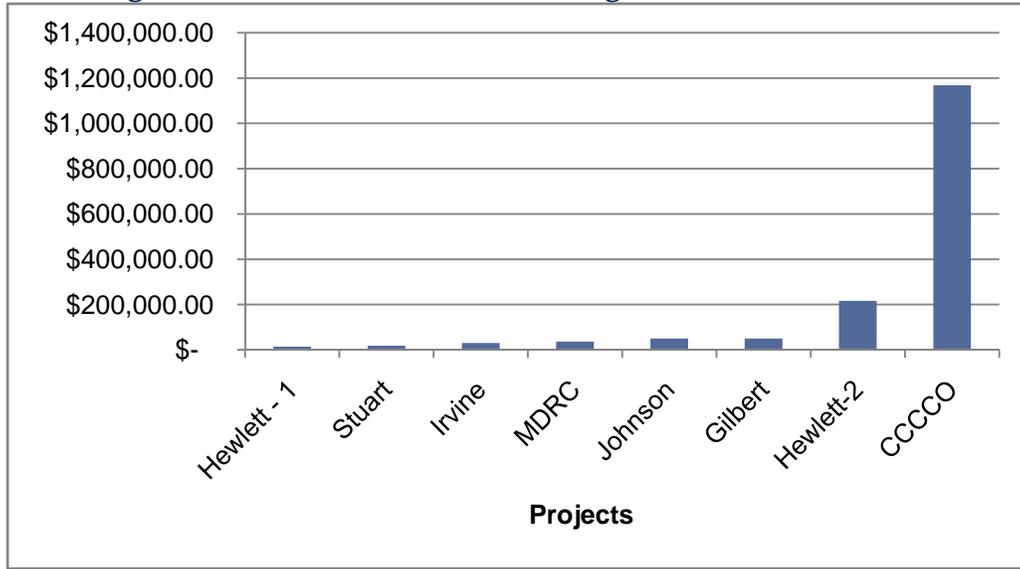
Recommendation 16-2: Cal-PASS should use remote conferencing whenever possible.

Cal-PASS staff currently use remote conferencing; however, it appears that increasing the use of conferencing could result in greater savings for the program.

Finding 17: Salaries are a major CCCCO grant expenditure; however, the salary expenses are in line with salaries charged to other Cal-PASS grants.

Salaries accounted for \$1,168,472 of CCCCO funds in FY 2007-08. This amount includes salaries for executive, management, operations, and temporary staff. This is by far the largest expenditure for any item in Cal-PASS, as indicated in Figure 15.

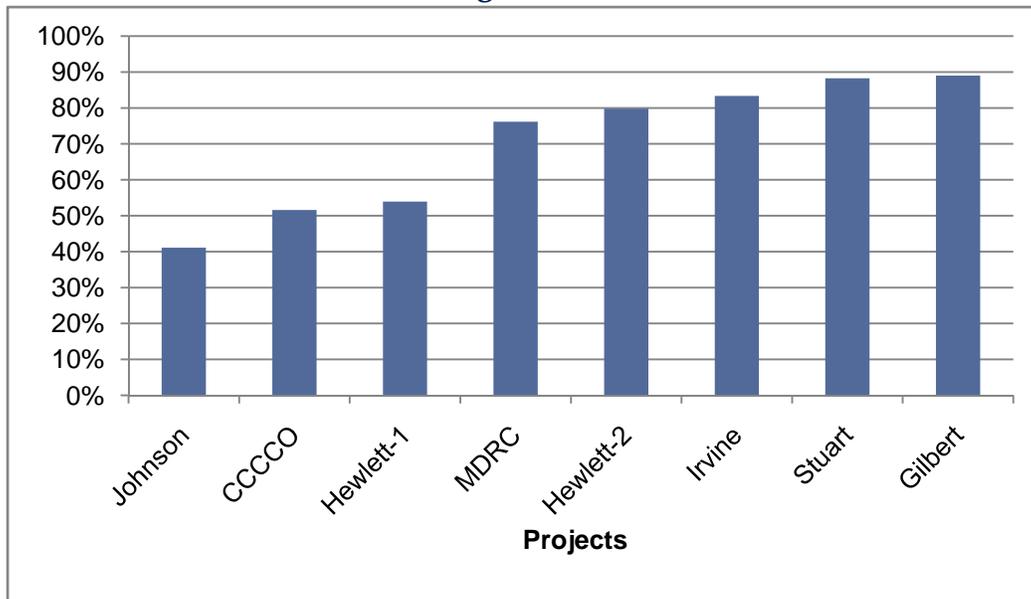
Figure 15— The CCCCO Grant Charges the Most to Salaries



Source: The FY 2007-08 auxiliary general ledger.

When salary expenditures are compared as percentages of grant funding, the CCCCO salary allocation is lower than most Cal-PASS grants, as shown in Figure 16.

Figure 16— The CCCCO Grant Expended the Second Lowest Percentage of Funds on Salaries



Source: The FY 2007-08 auxiliary general ledger

Recommendation 17: *The auxiliary and Cal-PASS should include comparative analysis in their reports to funders.*

The CCCCO grant salaries are a major expenditure, and it was not until we compared salaries as percentages of grant funds that the situation became clear. Funders would also benefit from this type of comparison in annual reports.

Finding 18: Cal-Pass does not calculate its administrative overhead to program cost ratio.

One measure of a nonprofit’s efficiency compares administrative overhead to program costs and typically includes executive, fundraising, and headquarters office costs. Administrative overhead is expressed as an overhead-to-program ratio, or as an overhead cost percentage of all funding. This data is not calculated or published by the auxiliary or Cal-PASS.

Although no standard way exists to calculate administrative overhead, Cal-PASS’ overhead calculation appears to be about 10 percent. See Figure 17 for calculations and assumptions. This percentage compares favorably against the national average of 20 percent for education² nonprofits.

Figure 17—Overhead Calculations and Assumptions

Costs	Percentage	Assumptions
Auxiliary Overhead	4	None
Headquarters Office	1	100 percent recovery. Includes office staff salaries, lease, communication, travel, etc.
Executive Fundraising	4	50 percent of Cal-PASS executive director time is in fundraising, including travel, communications, etc.
Non-Executive Fundraising	1	Cal-PASS engaged in fundraising or administration and associated office costs.

Source: The FY 2007-08 auxiliary general ledger and review team calculations.

This overhead administrative measure is something that funders or donors are keenly interested in, especially given the online public disclosure on IRS Form 990. For instance, the Charities Review Council stipulates:

“At least 70 percent of the organization’s annual expenses are for program activity and not more than 30 percent for management/general and fundraising combined.”³

The Center on Philanthropy Matters states:

“Watchdog organizations and others generally judge nonprofits according to a “65/35” spending ratio, meaning they should spend at least 65 percent of total expenses on program activities and no more than 35 percent on administrative and fundraising expenses.”⁴

Administrative overhead is an example of a useful metric, although other metrics include:

- ◆ Fundraising efficiency.
- ◆ Revenue growth.
- ◆ Beneficiaries served (Cal-PASS publishes data on beneficiaries and partners).
- ◆ Funders (Cal-PASS publishes information on their funders).

² Nonprofit Overhead Cost Study

³ Charities Review Council, Accountability Standards & Resources.

⁴ The Center on Philanthropy at Indiana University.

A consequence of not having all of these metrics is that some funders and donors may see the auxiliary and Cal-PASS as less attractive recipients, even though Cal-PASS figures appear favorable. Organizations, such as Charity Navigator, which actively seek nonprofit financial data and operational reports for analysis, use this information to rate nonprofit organizations using a four-star efficiency scale. The Charity Navigator Rating System publishes its findings on the Internet. This rating scale can impact funding, primarily from private funders, although it is not the only tool that organizational funders utilize.

Recommendation 18-1: The auxiliary and Cal-PASS should continue publishing information on funders and beneficiaries.

These measures increase Cal-PASS's credibility and are an excellent demonstration of organization scale, ability, and impact. Some funders use these metrics to look beyond narrative information and provide tangible performance indicators.

Recommendation 18-2: The auxiliary and Cal-PASS should calculate and publish key nonprofit metrics.

Overhead costs, revenue growth, and fundraising efficiency could be calculated at end of each financial year and these figures should be published on the Cal-PASS Web site.

Recommendation 18-3: The auxiliary and Cal-PASS executives should make any necessary adjustments to meet the benchmark overhead figures.

Once the key metrics are known, auxiliary and Cal-PASS executive staff should define the standard they want to meet and take measures to meet those benchmarks.

Appendix A

Appendix A: Auxiliary General Ledger Expenditure Categories Fiscal Year 2007-08

Row Labels	Sum of Debit	Number of Transactions
Membership	\$50.00	1
Miscellaneous	\$86.36	1
Consultants	\$443.20	3
Advertising	\$625.00	6
Equipment—Computers	\$719.92	1
Supply—Books	\$843.75	1
Contracted Maintenance	\$1,024.40	5
Print	\$1,385.45	7
Postage and Freight	\$1,597.10	22
Fees	\$2,261.53	6
Auto Allowance—Executive ^a	\$5,700.00	1
Minor Equipment	\$6,067.03	7
State Unemployment Insurance	\$6,686.26	17
Medicare	\$10,035.36	53
Meals	\$10,875.28	60
Software License	\$20,123.15	19
Mileage	\$24,252.17	108
Utilities	\$25,660.81	92
Incentives	\$28,654.46	2
Major Computer Equipment	\$30,646.26	11
FICA	\$41,799.22	51
Supply—General	\$51,371.30	83
Retirement	\$54,943.11	48
Rent and Lease	\$69,020.85	66
Health	\$69,375.50	28
Operating Indirect	\$70,432.38	16
Salary—Short Term Staff	\$110,955.49	127
Salary—Executive ^a	\$130,829.00	1
Travel and Conferences	\$145,148.79	123
Salary—Executive ^a	\$156,000.00	1
Salary—Management	\$258,475.52	86
Salary—General	\$323,673.01	128
Contract and Miscellaneous	\$604,494.90	305
GRAND TOTAL	\$2,264,256.56	1,498

a Not included in auxiliary general ledger for FY 2007-08.

Grossmont-Cuyamaca Community College District

MGT Fiscal Review Results District Response to Findings and Recommendations

The Grossmont-Cuyamaca Community College District has received the draft Fiscal Review of the Cal-PASS program. We would like to acknowledge the investment of time and resources by the California Community Colleges Chancellor's Office in providing this review and allowing an independent validation of the program elements provided in an economic fashion and noting the impressive amount of leveraged funding. The leveraged funds and efficient administration allow the Cal-PASS program to enhance the breadth and depth of activities beyond what could be supported by the state core funding level.

The District appreciates the opportunity to provide clarification and/or respond to the draft recommendations where appropriate.

Page 1 – Executive Summary:

The executive summary notes weaknesses in internal controls and monitoring, complex or inadequate policies, lack of performance measures and a need for increased controls. Although the District appreciates the review team's comments, these summary statements imply problems and deficiencies in internal controls that are not substantiated by the detailed findings.

1

Each finding and recommendation is addressed below. In most cases the review team is citing requirements different from GCCCD policies and recommending practices that although may be helpful, would increase program costs and suggest practices that would add increased administrative costs.

2

Below please find a summary of the findings and recommendations followed by a GCCCD Response:

Control and Monitoring

1. **Finding:** *The auxiliary did not include executive salaries in its financial statements for FY 2007-2008.*

- 1.a. **Recommendation:** *The auxiliary should include all Cal-PASS expenditures in its general ledger.*

Please remove this finding and recommendation – the financial statements of GCCCD and the GCCCD Auxiliary each fully complied with application auditing rules.

3

GCCCD Response, if Recommendation is Not Removed: All salary was properly recorded in either the Auxiliary or District ledgers based on the work plan and budget approved by the CCCCCO.

2. **Finding:** *Cal-PASS did not seek or obtain approval from CCCCCO for out-of-state travel paid for with CCCCCO grant funds.*

- 2.a. **Recommendation:** The auxiliary and Cal-PASS should not use CCCCCO grant funds for any activity beyond what is specified in the grant objectives.

GCCCD Response: Out of State travel is not funded by Cal-PASS. The review team noted one trip that was inadvertently charged to the program. The auxiliary has implemented an improved procedure to add additional oversight on out-of-state travel.

4

3. **Finding:** *The CCCCCO project monitor did not approve Cal-PASS subcontractors.*

- 3.a. **Recommendation:** *The auxiliary and Cal-PASS should seek and document approval for all subcontracts related to CCCCCO grants until directed otherwise by CCCCCO.*

GCCCD Response: The subcontract relationship between the District and the Auxiliary has been reflected in many discussions with the state and we have received no objection to that working relationship.

Additional Comment Regarding Vendor Contracts: This is the only subcontract within the Cal-PASS program. The auxiliary contracts with many vendors in order to expedite the vital functions of the grant as reflected in the approved budget. The standard subcontract review provision, which appears in all our state grants, has never been applied against vendor contracts. The CCCCCO may want to consider a change in practice regarding the standard provisions and the current process, and then all districts would apply this practice to all grants. A threshold of a reasonable amount could be set (maybe \$10,000) and these contracts could go to the CCCCCO for approval provided that they would not add unnecessary administration, delay nor costs to the programs (maybe consider review to be completed within 5 business days).

5

4. **Finding:** *Cal-PASS has discussed forming its own nonprofit organization.*

- 4.a. **Recommendation:** *The Cal-PASS executive director should coordinate with major funders and stakeholders to determine what governance arrangement would best serve Cal-PASS and meet stakeholder needs.*

Please remove this finding and recommendation – the finding is not correct and even if they were, it is not clear why this is a finding.

6

GCCCD Response, if Recommendation is Not Removed: There is no work in process to create a separate Cal-PASS 501(C)3. A separate

6

organization, not called Cal-PASS, has been suggested to help support the work by expanding efforts with foundations.

5. **Finding:** *Some travel claims for hotel expenses were high.*

5.a. **Recommendation:** *Cal-PASS should set a cost ceiling on room rates in accordance with the GSA schedule.*

Please remove this finding and recommendation – the documentation does not indicate the hotel expenses were high and the federal GSA schedule does not apply to district programs.

7

GCCCD Response, if Recommendation is Not Removed: Cal-PASS as a program of the GCCCD District follows the travel policy and reimbursement process and maximums provided in district policy.

5.b. **Recommendation:** *Cal-PASS should seek government or corporate rates on all hotel bookings.*

Please remove this recommendation – employees do request government or corporate rates.

7

GCCCD Response, if Recommendation is Not Removed: GCCCD travel procedures already require employees to request government rates or convention/group rates. Additionally, the travel operating procedures note “employees are expected to obtain the best possible rates for an acceptable standard room ...” The documentation does not indicate the reduced rate was not requested.

6. **Finding:** *Cal-PASS used inconsistent practices to account for gift cards provided as incentives for Professional Learning Council (PLC) members.*

6.a. **Recommendation:** *The auxiliary should include an explanation in its policies of the distinction between gifts, incentives, and honoraria in the honoraria policy document. The PLC participants need to understand this distinction when they receive the cards.*

GCCCD Response: Cal-PASS provides a nominal faculty PLC participation incentive of \$25.00. This is the only acknowledgement of a faculty members participation in the critical PLCs that are the core of the Cal-PASS program. This \$25 Bookstore card is neither a gift nor honoraria. The Auxiliary will revise the policy to reflect this clarification

6.b. **Recommendation:** *Cal-PASS accounts for funds at the event level and does not require PLC members to sign for gift cards.*

GCCCD Response: Signatures are required to accept the cards at each level in the distribution process.

- 6.c. Recommendation:** *Cal-PASS should review and continually monitor the use of incentive payments in their programs.*

GCCCD Response: In addition to the physical signature sheets, each Regional Coordinator reports attendance and gift card recipients on the Cal-PASS portal. This information is posted within one week of each PLC meeting.

- 7. Finding:** *Auxiliary independent contractor agreements vary in level and type of detail.*

- 7.a. Recommendation:** *The auxiliary should review its independent contractor agreement templates and be sure to include adequate detail to understand the scope, deliverables, and price.*

GCCCD Response: Improvements in this area have been implemented since FY 07-08 and, as noted by the review team during discussions, now include the appropriate level of detail regarding scope, deliverables and price.

- 7.b. Recommendation:** *The auxiliary should continue to include a detailed overview of the vendor services in the independent contractor agreement under the section "Work to be Performed."*

GCCCD Response: Improvements in this area have already been implemented and include a detailed overview. This practice will continue in the future.

- 8. Finding:** *The auxiliary did not always maintain delivery receipts for purchased equipment.*

- 8.a. Recommendation:** *The auxiliary and Cal-PASS should retain complete delivery receipts for major equipment purchases.*

GCCCD Response: GCCCD now has a standard procedure for the GCCCD Auxiliary.

Policy and Procedure

- 9. Finding:** *The district purchasing card policy for Cal-PASS creates double-handling and increases auxiliary staff workload.*

- 9.a. Recommendation:** *The auxiliary and the district should develop a more efficient purchasing card system.*

GCCCD Response: GCCCD provides the district's procurement card processing to the Auxiliary to help expedite purchases. This does, however, create an additional level of administration and could potentially be improved. The district will work with Auxiliary to examine

options to reduce the work redundancy, while still maintaining strong oversight of the use of purchasing cards.

9.b. Recommendation: *The auxiliary should be the purchasing card agent and manage all purchasing cards for Cal-PASS.*

GCCCD Response: The district will work with Auxiliary to examine options while still maintaining strong oversight of the use of purchasing cards.

10. Finding: *The process used to account for purchasing card transactions reduces transparency in the auxiliary's general ledger.*

10.a. Recommendation: *The auxiliary should include all purchase card line item detail in its general ledger.*

GCCCD Response: As part of the improvements noted above, the Auxiliary will consider posting additional detail in the general ledger.

10.b. Recommendation: *The auxiliary should develop a system to electronically integrate purchase card data into the general ledger to increase transparency.*

GCCCD Response: GCCCD will examine options to implement this recommendation.

11. Finding: *Object code structure in the general ledger decreases transparency.*

11.a. Recommendation: *The auxiliary should develop subject codes, especially for the six most frequently used object codes.*

GCCCD Response: Subcategories were added in the fall of 2008 to the largest category listed in the report, contract and miscellaneous services. GCCCD and the auxiliary will consider if more subcategories would be helpful.

12. Finding: *Some transaction description fields in the general ledger lack detail.*

12.a. Recommendation: *The auxiliary accounting staff should provide more detail in the description field for their transactions.*

GCCCD Response: GCCCD will examine options to clarify transactions while working within the accounting software limits regarding the number of letters in the description.

13. Finding: *Cal-PASS staff salaries are either negotiated with the district or established by the auxiliary.*

13.a. Recommendation: *The auxiliary should undertake a salary study to document and confirm the executive compensation packages are reasonable.*

GCCCD Response: All salaries are negotiated with the District's chief negotiators and reviewed and approved by the Governing Board.

8

13.b. Recommendation: *The CCCCCO should review salary data for similar programs that it funds and determine if there is salary parity for district and auxiliary staff.*

GCCCD Response: The auxiliary salary placement is comparable to the district. The salary schedules are the same as the District schedules.

8

14. Finding: *Travel and expense claims policies and forms need improvement.*

Please remove this finding and recommendations

14.a. Recommendation: *The auxiliary director should introduce a per diem meal payment system to allow better access to the entitlement and reduce auxiliary staff workload.*

GCCCD Response: Travel policies require detailed receipts which meets IRS rules, and provides the detailed oversight required by district procedures. A per diem has been considered in the past and determined to be more costly.

9

14.b. Recommendation: *The auxiliary director should revise the bank card log form to include space for the inclusion of key information required by the IRS.*

GCCCD Response: The form referenced in the finding is the log, which is intended to be a summary of the original receipt documents. This summary log could be improved; however, as the original supporting documents attached to the log meet the requirements, this does not appear to warrant a review finding and recommendation.

9

15. Finding: *The auxiliary does not have a conflict-of-interest policy.*

15.a. Recommendation: *The auxiliary should develop a conflict-of-interest policy and have all board members and senior staff sign attesting that they have received and understand the policies..*

GCCCD Response: The auxiliary currently has a conflict-of-interest policy addressing board members. The auxiliary will review the government code requirements and consider if senior staff should be included in the policy. A no conflict of interest statements is currently included in the senior staff employment contracts

10

Grant Comparisons and Nonprofit Benchmarks Findings

- 16. Finding:** *Travel costs are a major CCCCCO grant expenditure; although these costs are consistent with expenditures for other grants Cal-PASS receives.*

Please remove this finding and recommendations – We already do both.

- 16.a. Recommendation:** *The auxiliary and Cal-PASS should monitor travel and review expenditures on a quarterly basis.*

GCCCD Response: We already do. The auxiliary currently reviews travel expenditures on a monthly basis.

11

- 16.b. Recommendation:** *Cal-PASS should use remote conferencing whenever possible.*

GCCCD Response: We already do. Cal-PASS extensively uses remote conferencing.

12

- 17. Finding:** *Salaries are a major CCCCCO grant expenditure; however, the salary expenses are in line with salaries charged to other Cal-PASS grants.*

- 17.a. Recommendation:** *The auxiliary and Cal-PASS should include comparative analysis in their reports to funders.*

GCCCD Response: GCCCD will review this recommendation and implement if warranted.

- 18. Finding:** *Cal-PASS does not calculate its administrative overhead to program cost ratio.*

- 18.a. Recommendation:** *The auxiliary and Cal-PASS should continue to publish information on funders and beneficiaries.*

GCCCD Response: GCCCD will review this recommendation and implement if warranted.

- 18.b. Recommendation:** *The auxiliary and Cal-PASS should calculate and publish key nonprofit metrics.*

GCCCD Response: GCCCD will review this recommendation and implement if warranted.

- 18.c. Recommendation:** *The auxiliary and Cal-PASS executives should make any necessary adjustment to meet the benchmark overhead figures.*

GCCCD Response: GCCCD will review this recommendation and implement if warranted.

MGT of America, Inc.'s Comments on the Response from Grossmont-Cuyamaca Community College District

To provide clarity and perspective, we are commenting on the Grossmont-Cuyamaca Community College District's (GCCCD) response to our report. The numbers below correspond to the numbers we have placed in their response.

1. This statement is surprising. We are concerned that the district does not consider the failure to properly obtain approval or account for out-of-state travel or its subcontractors as control weaknesses.
2. We disagree with both of the district's assertions that we are citing incorrect policies and that our recommendations will increase costs. Rather, the review team applied the relevant policy for the use of CCCCO funds—the CCCCO grant agreement. District policy is in many instances irrelevant, because the policy stipulated in the CCCCO grant agreement governs the expenditure of CCCCO funds. The review team also cites IRS requirements, which are relevant to Cal-PASS, the auxiliary, and the district. Moreover, the review team questions the applicability of district policies to Cal-PASS. Cal-PASS is a program of the auxiliary, which is a separate legal entity, and has its own policies and procedures. When the review team requested applicable policies and procedures for the review, a district employee stated in an email, dated 07/08/2009, that we should review the auxiliary policy documents located at: <http://www.gcccd.edu/auxiliary/auxiliary-policies.asp>

When the review team requested applicable policies and procedures, during the site visit, and after the site visit, we received auxiliary policies and procedures for our analysis in all but three instances. When we did receive district policy and procedure, this was clearly linked to the two Cal-PASS staff who are district employees, and in one instance to district salary scale which we were informed mirrored the auxiliary salary scale. The review team notes that for the two district staff assigned to Cal-PASS, their 'Contract of employment for inter-jurisdictional Assignment to the GCCCD Auxiliary' document states that

“...Reimbursement and/or payment for other job related expenses incurred in the course of employment are to be approved in accordance with the policies and procedures of the auxiliary”

The district should clarify which policies and procedures, auxiliary or district, are legally applicable to Cal-PASS. Duplicitous policies are inefficient, confusing, and may allow employees room to select the policy that suits them.

Finally, although we commend district for recognizing that our recommendations “may be helpful”, we are concerned that district seems to dismiss our recommendations as more costly without providing any support. We believe our recommendations will either; ensure compliance with funder or legal mandates, facilitate an organizational or employee benefit, or reduce costs by increasing efficiency.

3. This statement is confusing. The review team has never heard of and our research did not uncover anything regarding the “application auditing rules” to which the district refers. We stand by our recommendation—which the auxiliary was planning to implement anyway—that the auxiliary financial statements would be more complete, accurate, and useful if they included the salaries of the two Cal-PASS executives.
4. The auxiliary did not share its improved procedure for out-of-state travel with the review team.
5. The CCCCCO grant agreement is very clear that subcontracts must be approved by the CCCCCO project monitor. The review team discussed this provision with the project monitor who agreed with our finding and recommendation. The district is mistaken in its assertion that Cal-PASS has only one subcontract. Rather, the auxiliary/Cal-PASS subcontracts with many entities, such as independent contractors and technology providers. Although the CCCCCO budget gives guidance for and allowable levels for subcontracts, it does not constitute an approval mechanism.
6. The review team stands by its finding and recommendation. Both the Cal-PASS Executive Director and Auxiliary Director confirmed that the Cal-PASS Executive Director has given consideration to forming a separate nonprofit and has sought legal advice on how to do so. In addition, district’s statements are contradictory stating first that the review team’s finding is wrong but then confirming the review team’s finding that forming a new organization has been discussed.
7. The district is wrong, the documentation reviewed does indicate that hotel expenses are high and the review team found no evidence on lodging receipts that staff use government or corporate rates. Regarding which policy to follow, the CCCCCO grant agreement states that district policy is to be followed for travel. However, the auxiliary director informed the review team that the district policy was the applicable policy for the two Cal-PASS district employees only and that the remainder of Cal-PASS staff follow auxiliary travel policy. Given the conflicting information surrounding applicable policy, the review team reviewed both travel policies and found that neither policy has an effective cost ceiling for maximum allowable lodging reimbursement. The table below shows pertinent clauses in each policy for maximum lodging rates.

DISTRICT	AUXILIARY
Actual lodging costs, not to exceed charges at the single occupancy rate, are allowed. Expenses must be verified by hotel billing. Original, detailed hotel receipts are required. Credit card receipts are not acceptable.	Actual lodging cost, not to exceed charges at the single occupancy rate are allowed. This cost may be paid directly to the hotel in advance. Expenses must be verified by hotel billing. Original hotel receipts are required. Credit card receipts are not acceptable.

Source: District Travel Policy.

Source: Auxiliary Travel Policy.

The problem with both policies is that they do not stipulate what type of hotel that staff must seek the ‘single occupancy’ rates in. The table below shows a great deal of variation for room cost at the single occupancy rate, depending on the star level of the hotel selected.

SINGLE OCCUPANCY RATES VARY WIDELY DUE TO HOTEL STAR LEVEL	
HOTEL STAR RATING	SINGLE OCCUPANCY ROOM RATE AVERAGE
2	75
3	170
4	250

Source: Hotels.com based on a two day stay in San Diego—October 22-22. Figures are averaged in each star category.

Moreover, hotels can vary their rates and do not publish lodging rates after the fact—making any subsequent review impossible.

The report only includes a snapshot of some of the higher hotel charges observed. As a result of the district's need for more evidence indicating that the Cal-PASS hotel expenses are high, we present additional evidence in the following table. We make our assessment of hotel charges being too high based on applicable state regulations, or federal standards—which we believe are a best practice.

SERIAL	CAL-PASS STAFF MEMBER	LOCATION	CHECK-IN DATE	CAL-PASS PAID	CALIFORNIA DPA LODGING RATE	FEDERAL GSA LODGING RATE
1	Executive Director	Palm Springs, CA	07/24/07	129	84	88
2	Executive Director	Austin, TX	07/31/07	239	N/A	85
3	Executive Director	Austin, TX	06/20/07	133	N/A	85
4	Executive Director	Roseville, CA	08/28/07	169	84	103
5	Associate Director	Austin, TX	09/24/07	127	N/A	85
6	Associate Director	Fresno, CA	10/09/07	129	84	79
7	Associate Director	San Jose, CA	10/03/07	169	110	110
8	Associate Director	Fresno, CA	11/12/07	104	84	79
9	Director of Collaboration	Kihei, HA	7/14/2007	189	N/A	112
10	Director of research	San Diego, CA	06/27/07	179	110	131

Table Notes:

Applicable California Department of Personnel Administration Lodging Rate. The State Administrative Manual published by the California Department of General Services states that in-state staff travel is to be reimbursed at California DPA rates. The DPA rates list three rates that are noted as "not to exceed rates" for lodging. These are listed in the table above. The review team notes this standard applies to CCCCO funds.

Federal General Services Administration (GSA) Rate. The review team notes that federal policies may not applicable to the district. The review believes that the GSA lodging rates set an appropriate ceiling for the prudent and cost effective use Cal-PASS funds. Relevant GSA rates are listed above. The review notes that DPA provides no cost guidance for out-of-state travel and sees the GSA rate as a useful tool for setting cost ceilings for out of state travel.

8. Because the two Cal-PASS executives work exclusively for the program, the review team believes that they may be held subject to the IRS reasonable standards test as outlined in the report. In any event, regardless of any potential loophole, the reasonable standards test is a good standard to adhere to for executive staff of a nonprofit. Further, the review team makes these recommendations because Cal-PASS staff are among the highest paid in the district and their salaries are also high in comparison to similar positions listed on commercial salary research sites such as salary.com.
9. The district's statement is inaccurate and surprising. The review team found multiple instances where the travel expense cover form lacked adequate detail to meet IRS guidelines. Receipts do not include all of the information required by the IRS, such as how many people attended an event or a meal or what their relationship is to Cal-PASS.
10. This is news to us. The director, GCCCD auxiliary, did not mention the existence of these policies to us during our review. However, as a result of this new information, we have clarified our finding to reflect that the auxiliary lacks a conflict of interest policy for staff.
11. The review team acknowledges that travel expenditure reports are reviewed and approved monthly; however, we found no evidence that travel expense summary data or trends are reviewed. Until transparency in the General Ledger is increased, as discussed earlier, such an analysis would be prohibitively time-consuming and costly.
12. Due to the extensive travel expenses incurred by Cal-PASS staff, the review team believes that additional opportunities may exist for Cal-PASS staff to use remote conferencing.