



***Program Compliance Office
California Student Opportunity & Access Program
Review Report***

2000-01 Award Year

**South Coast Consortium
Program Review ID#60200200005
9401 South Painter Avenue
Whittier, CA 90605**

Program Review Dates: 6/3/2002 to 6/14/2002

Staff: Melanie Wong
(916) 526-8207

Anadelia Marquez
(916) 526-8035

Report Approved by: Charles Wood, Manager
Program Compliance Office
(916) 526-8912

TABLE OF CONTENTS

	<u>Page Number</u>
REVIEW REPORT	
SUMMARY	3
BACKGROUND	3
OBJECTIVES, SCOPE AND METHODOLOGY	5
CONCLUSION	6
VIEWS OF RESPONSIBLE OFFICIALS	6
FINDINGS AND REQUIRED ACTIONS	7
OBSERVATIONS AND RECOMMENDATIONS.....	29

REVIEW REPORT

SUMMARY

We reviewed the South Coast Consortium's administration of the California Student Aid Commission (Commission) California Student Opportunity & Access Program (Cal-SOAP) for the 2000-01 award year.

The consortium records disclosed the following:

- Written Cal-SOAP procedures have not been developed
- Consortium Governing Board was not comprised of representatives from each participating institution
- Consortium Governing Board was not making formal governing decisions
- The Consortium Board was not approving expenditures
- Cal-SOAP equipment was not identified as property of the State of California
- Actual in-kind match amounts were not documented
- Reimbursement requests were not being submitted quarterly
- Cal-SOAP funds were not reconciled
- Voided checks were not retained or properly documented
- No separation of duties in the fiscal operation
- No written agreement between the Consortium and Fiscal Agent

BACKGROUND

Through compliance reviews, the administration of the Cal-SOAP program is evaluated to ensure program integrity with applicable laws, policies, contracts and consortium agreements.

The following information, obtained from the consortium and Commission database, is provided as background on the consortium:

A. Consortium

- Type of Organization: Private, Non-Profit
- Interim Project Director: Marisza Espinoza
- Board Chairperson: Sylvia M. Juarez
- Fiscal Agent: SPIRITT Family Services
- Membership: University of California Los Angeles
University of California Berkeley
University of California Riverside
University of California Irvine
Cal State University Long Beach
Cal State University Fullerton
Cal State University Los Angeles
Cal State University Dominguez Hills
Cal State University Northridge
Cal Poly Pomona
University of Southern California
Occidental College
California Institute of Technology
Chapman University

REVIEW REPORT (continued)

- Membership (cont.)
 - Scripps College
 - Loyola Marymount University
 - University of La Verne
 - Whittier College
 - Claremont McKenna College
 - Pitzer College
 - Harvey Mudd College
 - Rio Hondo College
 - Cerritos College
 - Long Beach City College
 - Fullerton College
 - Los Angeles City College
 - Los Angeles Trade Tech
 - Citrus College
 - Rancho Santiago College
 - Orange Coast College
 - Mt. San Antonio College
 - Saddleback College
 - Whittier Union High School District
 - El Rancho High School
 - Santa Fe High School
 - Human Services Academy

B. Consortium Persons Contacted

- Marisza Espinosa
 - Interim Project Director
- Sylvia Juarez
 - Board Chairperson
- Ramon Muniz
 - Ex-Officio Chairperson
- Luis Dorado
 - First Vice Chair
- Mary Parra
 - SPIRITT Family Services (Fiscal Agent)

C. Project Information

- Date of Prior Commission
 - Program Review: None
- Size of Student population in the service area: 18,000
- Number of Students Served
 - General: 18,000
 - Intensive: 11,365
 - Cal-SOAP Programs:
 - Daily Advisement (Career, school, college)
 - College & Career Information Day
 - College Application Workshops
 - College Campus Visits
 - College Informational Workshops
 - CSU Admissions Days
 - Loan Counseling & Financial Aid
 - Parent Outreach (Meetings & Mailings)

REVIEW REPORT (continued)

Cal-SOAP Programs: (cont) Tutorial Services
SAT I Preparation Workshops
Social Awareness Leadership Academy

D. Project Information

- Date of Prior Commission Program Review: None
- Size of Student population in the service area: 18,000
- Number of Students Served
 - General: 18,000
 - Intensive: 11,365
 - Cal-SOAP Programs: Daily Advisement (Career, school, college)
College & Career Information Day
College Application Workshops
College Campus Visits
College Informational Workshops
CSU Admissions Days
Loan Counseling & Financial Aid
Parent Outreach (Meetings & Mailings)
Tutorial Services
SAT I Preparation Workshops
Social Awareness Leadership Academy

OBJECTIVES, SCOPE AND METHODOLOGY

The purpose of our review is to provide the Commission with assurance that the consortium adequately administered the Cal-SOAP program and that they are in compliance with applicable laws, policies, contracts and consortium agreements.

The review focused on, but was not limited to, the following areas:

- A. General Eligibility
- B. Program Eligibility
- C. Completion of Reports
- D. File Maintenance and Records Retention
- E. Review of Administrative and Accounting Controls

The specific objectives of the review were to determine that:

- Administration systems have adequate controls to ensure that Cal-SOAP funds received by the consortium are secure.
- Administration systems have adequate controls to ensure that Cal-SOAP payments are accurate, legal and proper.
- Accounting requirements are being followed.

REVIEW REPORT (continued)

OBJECTIVES, SCOPE AND METHODOLOGY (continued)

The procedures performed in conducting this review include:

- Evaluation of the current administrative procedures through interviews and reviews of records, forms and procedures.
- Evaluation of the current payment procedures through interviews and reviews of records, forms and procedures.
- Review of the records and payment transactions from a sample of Cal-SOAP student tutors within the review period. The program review sample was selected from the total population.
- Review of the records and payment transactions from a sample of Cal-SOAP expenditures within the review period. The program review sample was selected from the total population.

This review was conducted in accordance with **Government Auditing Standards** issued by the Comptroller General of the United States. However, the procedures did not constitute a review of the consortium's financial statements.

The review scope was limited to planning and performing procedures to obtain reasonable assurance that Cal-SOAP funds were administered according to the applicable laws, policies, contracts and consortium agreements. Accordingly, transactions were examined on a test basis to determine whether Cal-SOAP funds were expended in an eligible manner. The consortium's management controls were considered only to the extent necessary to plan the review.

This report is written using the exception-reporting format, which excludes the positive aspects of the consortium's administration of the Cal-SOAP program.

CONCLUSION

In conclusion, except for the issues described in the Findings and Required Actions section of this report, the consortium administrated the Commission Cal-SOAP program in accordance with the applicable laws, policies, contracts and consortium agreements as they pertain to the Commission's Cal-SOAP program.

VIEWS OF RESPONSIBLE OFFICIALS

The review was discussed with consortium representatives in an exit conference held on June 19, 2002.

June 19, 2002

Charles Wood, Manager
Program Compliance Office

FINDINGS AND REQUIRED ACTIONS

A. GENERAL
ELIGIBILITY:

FINDING: Written Cal-SOAP Procedures Have Not Been Developed

There were no written procedures available at the Consortium to govern the administration of the Cal-SOAP program.

DISCUSSION:

In order to measure performance of the Consortium, it is necessary to analyze the adequacy and enforcement of established internal controls (procedures) for safeguarding the operational and fiscal integrity of the Cal-SOAP program. A compliance review includes evaluating the consortium's controls and written policies. According to the interim Project Director, there are no written procedures available at the consortium to govern the administration of the Cal-SOAP program.

REFERENCES:

Cal-SOAP Program Operations Handbook, 12/96, Chapter 5, pages 32 to 36
Cal-SOAP Program Operations Handbook, 10/01, Section 6, pages 7 to 13

REQUIRED ACTIONS:

The South Coast Consortium should develop written policies and procedures in order to safeguard the operational and fiscal integrity of the Cal-SOAP program. Please provide in your response the plan of action that the South Coast Consortium will take to correct the above-mentioned deficiency.

CONSORTIUM RESPONSE:

In accordance with Cal-SOAP program Operations Handbook (10/1, section 6, pages 7 to 13) and Nonprofit Books guidelines in places by our CPA (Vicenti, Lloyd & Stutzman), the South Coast Consortium of Schools and Colleges (SCCSC) along with our Interim Director, Marisza Espinoza, have mapped out a personnel policies and procedures manual. Our personnel policies will follow general human resources guidelines used in institutions of higher education. Our procedures manual will accommodate the director in program planning as a "free standing" Cal-SOAP with checks and balances monitored by our CPA and reported to the South Coast Consortium's Executive Board.

Action in Place: SCCSC will continue to develop the personnel policies and procedures manual throughout the summer of 2003. By July 2003, the draft enclosed for the California Student Aid Commission will be completed.

AUDITOR REPLY:

The Consortium's action is deemed acceptable.

FINDINGS AND REQUIRED ACTIONS (continued)

B. PROGRAM
ELIGIBILITY:

FINDING 1: Consortium Governing Board Was Not Comprised of Representatives From Each Participating Institution

The South Coast Consortium of Schools and Colleges Executive Board was acting as the South Coast Cal-SOAP governing board and did not include representatives from each participating institution.

DISCUSSION:

As directed in California Education Code 69561 (f) and (h): Each project shall be operated through a consortium that involves at least one secondary school district office, at least one four-year college or university, at least one community college, and at least one of the following agencies: a non-profit educational, counseling, or community agency, or a private, accredited vocational or technical school. Furthermore the governing board of each project must be comprised of at least one representative from each participating Consortium institution.

The South Coast Consortium of Schools and Colleges Executive Board is currently acting as the South Coast Cal-SOAP Consortium governing board. The South Coast Consortium of Schools and Colleges Bylaws state, "The Executive Board will consist of 11 officers...Five(5) of the officers will be filled by the five elected officers of the Executive Board....The six (6) at large officer positions shall be filled by any persons appointed by the President." "The Executive Board shall have representation from the following: EOP/S, EOP and Officers of University Outreach Offices or their designees, other Educational Institutions, Community Agencies, and similar programs that demonstrate a commitment to improving access to higher education. As of September 2001, the Consortium has 36 participating institutions. The current governing board (11 officers) does not include a representative from each participating institution.

REFERENCES:

Cal-SOAP Program Operations Handbook, 12/6/96, Chapter 2, page 9
Cal-SOAP Program Operations Handbook, 10/01, Section 2, page 1
California Education Code, 69561(f) and (h)
South Coast Consortium of Schools and Colleges Bylaws, 11/1/01, Section 7.01 and 7.02

REQUIRED ACTIONS:

The South Coast Consortium governing board must include a representative from each participating institution in order to meet the Cal-SOAP governing board requirements.

FINDINGS AND REQUIRED ACTIONS (continued)

CONSORTIUM RESPONSE # 1:

The general membership of SCCSC totals 53 members that represent the University of California system, the California State Universities, Private/Independent Colleges and Universities, Community Colleges, one secondary school district office along with non-profit educational and community agencies as indicated in the California Education Code 69561. The executive Board (the governing body of SCCSC) consists of 11 officers (5 elected and 6 appointed) of which the total now represents each sector in the general membership.

Action in Place: Members from each sector have been encouraged to engage in program planning that moves SCCSC towards our purpose.

AUDITOR REPLY # 1:

While the Executive Board consists of 11 officers (5 elected and 6 appointed) of which the total now represent each sector in the general membership, it does not meet the required composition of the governing board as defined in CEC Section 698561 (h). To meet the definition, the Executive Board would have to include a representative from each member institution (currently 53).

According to the definition of a Cal-SOAP governing board, the Commission can only accept SCCSC's General Board as the Cal-SOAP governing board because it is comprised of at least one representative from each participating Consortium institution.

The General Board may choose to delegate some or all of the governing board responsibilities to the Executive Board. However, the SCCSC by-laws must be revised to state the specific responsibilities that have been delegated to the Executive Board. Furthermore, the by-laws must provide the General Board final authority of any actions made by the Executive Board.

CONSORTIUM RESPONSE # 2:

On June 4th, 2003, the South Coast Consortium (SCC) met for its yearly retreat and amended its bylaws to reflect its best interpretation of both the Education Code <CS 69561(f)> and the non-profit guidelines. The SCC has changed the governing bylaws to closely reflect the above mentioned education code. The SCC is now in compliance with findings B.1, B.2, and B.3 of the California Student Aid Commission's review in June 2002.

AUDITOR REPLY # 2:

California Education Code (CEC), 69561(h) states "The governing board of each project must be comprised of at least one representative from each participating Consortium institution.

FINDINGS AND REQUIRED ACTIONS (continued)

The Executive Board, which is acting as the consortium governing body, does not meet the requirements of the CEC 69561 in the present state. If the consortium wants to transfer some or all of the governing responsibilities to the Executive Board it needs to be incorporated into their bylaws.

CONSORTIUM RESPONSE # 3:

Our bylaws will be faxed no later than 5:00 PM on October 20, 2003.

AUDITOR REPLY # 3:

The revised bylaws dated September 9, 2003, document the function, voting and duties of the Governing Board and the Executive Board which now is in compliance with CEC 59561. The Consortium's action is deemed acceptable.

B. PROGRAM ELIGIBILITY:

FINDING 2: Consortium Governing Board Was Not Making Formal Governing Decisions

A review of the governing board meeting minutes revealed that the governing board did not appear to be making formal decisions for the project. Additionally, Cal-SOAP governance was not defined in the South Coast Consortium of Schools and Colleges By-laws.

DISCUSSION:

California Education Code 69561 (h) explains that the governing board of each project shall establish management policy, provide direction to the project, set budgetary priorities, and assume responsibility for securing the matching funds. Additionally, the Commission expects projects to maintain basic fiscal and managerial controls to ensure proper expenditure of funds (i.e. all major expenditures approved through the Board). The Consortium is also expected to operate within regularly adopted by-laws that define the operation of the Consortium.

According to the Consortium board meetings minutes, the governing board appears to be acting as an advisory board. The meeting minutes reflected the Project Director's reporting of various Cal-SOAP issues (program services, personnel issues, and administrative/budget summaries), however, they did not reveal that the board was making formal governing decisions regarding the reports from the Director. The South Coast Cal-SOAP Consortium was being administered by the South Coast Consortium of Schools and Colleges. The current by-laws of the South Coast Consortium of Schools and Colleges do not have clear guidelines as to how Cal-SOAP should be administered.

FINDINGS AND REQUIRED ACTIONS (continued)

REFERENCES:

Cal-SOAP Program Operations Handbook, 12/6/96, Chapter 2, page 9
Cal-SOAP Program Operations Handbook, 10/01, Section 2, page 1
California Education Code, 69591(h)

REQUIRED ACTION:

The South Coast Consortium of School and Colleges by laws must be updated to include definitions and duties of the Cal-SOAP governing board within the Consortium of Schools and Colleges.

CONSORTIUM RESPONSE # 1:

As of August 13, 2002, SCCSC has outlined in our by-laws the Cal-SOAP governance by the Consortium in conjunction with the financial aspect monitored by Vincenti, Lloyd & Stutzman (VLS). The Executive Board will approve the Annual Program Plan including the programs and proposed budget submitted to CSAC. Once a contract is extended by CSAC the executive board will revisit the programs to determine if the contract will cover the expenditures of the proposed projects for that fiscal year.

Action in Place: The Executive Board has voted on and passed the activities for the spring of 2003 as of March 6, 2003. We have also extended to our general membership the opportunity to submit program proposals for '03-'04. These will be part of our Annual Program Plan along with our CSAC and other funding commitments.

AUDITOR REPLY # 1:

As discussed in the response to Finding B.1 the General Board must be designated the governing board and must govern the program. If the General Board decides to transfer some responsibilities to the Executive Board, the by-laws must be updated to include definitions and duties of both the General and Executive Boards.

Any actions taken by the Executive Board **must be documented** in the board meetings minutes and must also be approved by the General Board.

CONSORTIUM RESPONSE # 2:

On June 4th, 2003, the South Coast Consortium (SCC) met for its yearly retreat and amended its bylaws to reflect its best interpretation of both the Education Code <CS 69561(f)> and the non-profit guidelines. The SCC has changed the governing bylaws to closely reflect the above mentioned education code. The SCC is now in compliance with findings B.1, B.2, and B.3 of the California Student Aid Commission's review in June 2002.

FINDINGS AND REQUIRED ACTIONS (continued)

AUDITOR REPLY # 2:

The governing board, either the General or Executive Board, approval **must be documented** in the board meetings.

CONSORTIUM RESPONSE # 3:

Our bylaws will be faxed no later than 5:00 PM on October 20, 2003.

AUDITOR REPLY # 3:

The revised bylaws dated September 9, 2003, document the function, voting and duties of the Governing Board and the Executive Board which now is in compliance with CEC 59561. The Consortium's action is deemed acceptable.

B. PROGRAM ELIGIBILITY:

FINDING 3: The Consortium Board Was Not Approving Expenditures

The Consortium Board was not formally approving project expenditures; the Project Director was approving all of the expenditures.

DISCUSSION:

The Commission expects projects to maintain basic fiscal and managerial controls to ensure proper expenditure of funds. Currently, the Project Director approves all expenditures. The Consortium Board was not involved in the approval of project expenditures, except for the approval of the Consortium budget. The Board was responsible for monitoring the operation of the Consortium, however, this goal cannot be attained without some type of reviewing and approving of expenditures. Expenditures made without the review and consent of the Board may cause the project to exceed its budget.

REFERENCES:

Cal-SOAP Program Operations Handbook, 12/6/96, Chapter 5, Page 34, 5.2.C.

REQUIRED ACTIONS:

The Board indirectly approves of expenditure with their approval of the Consortium budget. However, to ensure fiscal integrity, the governing board should implement policies and procedures that document the level of approval required for expenditures (i.e. any expenditure over a pre determined amount must be approved by the board).

FINDINGS AND REQUIRED ACTIONS (continued)

CONSORTIUM RESPONSE # 1:

By hiring VLS, the Consortium still expects the Director to budget and monitor expenditures from the offset. After review and approval by the Executive Board, the Director provides VLS with the numbers and categories in which funding should be either depleted or reimbursed. VLS maintains the records and holds physical checks, in addition to this, provides a monthly statement to the Consortium Treasurer.

Action in Place: The completion of the personnel policies & procedures manual will incorporate the detailed paper trail from the Cal-SOAP office to how VLS handles the paperwork once they receive it. By obtaining proposals in March for the Annual Program Plan in April, the Consortium hopes to ensure matching funds for all the programs done by Cal-SOAP prior to the beginning of a fiscal year. It also hopes to establish the budget that will be reported on throughout the fiscal year. To "ensure fiscal integrity" for this year, our minutes reflect a pattern of reporting on our funding, not only for the possibilities of exceeding our budget, but also being under budget.

AUDITOR REPLY # 1:

As noted in Finding B.2 and B.3, the General Board must document their actions and formally approve or ratify the project expenditures incurred by the consortium.

The formal reviewing and approving of project expenditures would help ensure fiscal integrity.

CONSORTIUM RESPONSE # 2:

On June 4th, 2003, the South Coast Consortium (SCC) met for its yearly retreat and amended its bylaws to reflect its best interpretation of both the Education Code <CS 69561(f)> and the non-profit guidelines. The SCC has changed the governing bylaws to closely reflect the above mentioned education code. The SCC is now in compliance with findings B.1, B.2, and B.3 of the California Student Aid Commission's review in June 2002.

AUDITOR REPLY # 2:

The governing board, either the General or Executive Board, approval of expenditures must be documented in the bylaws and at any board meetings.

CONSORTIUM RESPONSE # 3:

Our bylaws will be faxed no later than 5:00 PM on October 20, 2003.

FINDINGS AND REQUIRED ACTIONS (continued)

AUDITOR REPLY # 3:

The revised bylaws dated September 9, 2003, document the formal reviewing and approving of project expenditures by the Governing Board and Executive Board. The Consortium's action is deemed acceptable.

B. PROGRAM ELIGIBILITY:

FINDING 4: Cal-SOAP Equipment Was Not Identified as Property of State of California

A review of Cal-SOAP equipment revealed that it was not identified as property of the State of California.

DISCUSSION:

According to the Cal-SOAP Agreement, equipment items (major and minor) purchased using state funds shall be identified with an appropriate identification tag and the brand name, cost, date of purchase, identification/serial number, etc., shall be listed on an Equipment Inventory Report.

Per a discussion with the interim Project Director, none of the Cal-SOAP property (i.e. tables, chairs, photocopy machines, computers, etc.) had State of California identification tags. Equipment may not be properly inventoried and tracked as State of California property.

REFERENCES:

Cal-SOAP Agreement (G-00-011), Section 7, Page 4 and 5

REQUIRED ACTIONS:

The Consortium must identify all property purchased with Cal-SOAP funds. In addition, this identification should include the specific funding source (state, etc.). Please request State of California identification tags from the Commission and affix these tags on the identified equipment. Also, provide a complete Equipment Inventory Report listing all the identified property.

CONSORTIUM RESPONSE:

All equipment purchased with Cal-SOAP funds has been identified and has been added to an inventory list kept in the Cal-SOAP office and with the Consortium historian

Action in Place: The Director and her staff have identified, labeled and listed the items bought with Cal-SOAP funds.

AUDITOR REPLY:

The Consortium's action is deemed acceptable.

FINDINGS AND REQUIRED ACTIONS (continued)

B. PROGRAM
ELIGIBILITY:

FINDING 5: Actual In-Kind Match Amounts Were Not Documented

A review of five Consortium members' in-kind match amounts revealed the institution did not have proper documentation.

DISCUSSION:

State law requires a matching contribution of local resources for each Cal-SOAP project at a 1:1 ratio. The goal, however, is for the projects to exceed the 1:1 ratio and attain a 1:1.5 ratio. Each consortium, through its Director, is expected to systematically account for the receipt and expenditure of matching funds provided by supporting institutions. The expenditure of matching funds constitutes an integral part of each project's operation and its fiscal reporting to the Commission. "In-kind" funds, which are not included in a project's expenditure budget, are to be accounted for in a reasonable manner and reported to the Commission.

Currently, supporting institutions are not fully documenting their in-kind contributions that are reported to the Consortium. The members did not realize in what detail they needed to provide and document actual amounts. Because actual amounts are not being reported, the Consortium does not know the actual in-kind ratio and may be receiving more than the required 1:1 ratio. We sampled five Consortium members for their calculation of the in-kind match. As this matter was discussed with these five Consortium members, it appeared that the actual in-kind match was higher than the budget amounts that were reported to the Commission. The Consortium was not maximizing the matching funds of their supporting institutions (progressing to reach the 1:1.5 ratio) and not accurately reporting the amount of those matching funds to the Commission.

REFERENCES:

California Education Code 69564
Cal-SOAP Program Operations Handbook, 12/6/96, Chapter 4, page 22 & 24
Cal-SOAP Program Operations Handbook, 10/01, Section 2 pages 2-4

REQUIRED ACTIONS:

The Consortium must create a method of **tracking** and **documenting** the actual in-kind match amounts supplied by the institutions. This match amount is subsequently reported to the Commission. If it appears reasonable, the institutions may use a time study where all in-kind costs are tracked for a reasonable period or periods of time and extrapolated over the year to determine their actual in-kind match for the award year.

FINDINGS AND REQUIRED ACTIONS (continued)

CONSORTIUM RESPONSE:

Part of our actions to maximize in-kind match has been our effort to strengthen the relationship between the Consortium and our service schools. In the past the Cal-SOAP Director and staff have directly dealt with the site supervisors at each service school. However, this year we have included them as Consortium members by inviting them to our monthly meetings. During the fall of 2002 Cal-SOAP along with the Consortium hosted a luncheon for site supervisors. At this event site supervisors were reeducated on the relationship between Cal-SOAP, the Consortium, and CSAC. We also explained in detail the purpose of in-kind match and the Form A. Overall the event was a success because of many of the site supervisors had never formally been informed about Cal-SOAP and the Consortium.

For fiscal year '03-'04, the general body of the Consortium provided the Director with proposals for programs to be considered during the mentioned year. The general membership provided the idea for an event and the total in-kind match amount. Guidelines were provided by the Director and the proposals were due March 6th, 2003 along with a Form A. The Director will include these ideas as an addendum to our previous contract amount of \$255,000. Once the contract is extended by CSAC and the events are occurring, the Cal-SOAP office will continue to monitor the in-kind match with our own form (Matching Resources Verification Form).

Action in Place: With our proposal and Form A, the Cal-SOAP project will continue the intersegmental cooperation mentioned in Cal-SOAP Program Operations Handbook, 10/01, Section 2 page 3 to 4. This will ensure that the general membership will continue to participate in the development of programming while the compliance aspect will be monitored by the Executive Board. During our annual retreat along with periodic mentions in meetings, the general body will continue to be educated on the process related to our relationship with CSAC. A "method of tracking and documenting" in-kind match will be a part of our procedures manual.

AUDITOR REPLY:

The Consortium's action is deemed acceptable.

C. COMPLETION OF REPORTS:

FINDING: Reimbursement Requests Were Not Submitted Quarterly

A review of the Cal-SOAP funds revealed that the reimbursement requests were not submitted to the Commission on a quarterly basis.

DISCUSSION:

The Cal-SOAP agreement states the grantee will submit Reimbursement Requests either monthly or quarterly, in arrears, unless special arrangements

FINDINGS AND REQUIRED ACTIONS (continued)

are approved. All Reimbursement Requests shall be prepared and submitted in accordance with authorized expenditures for actual expenses incurred.

The Consortium did not submit their first quarter (July-September 2000), second quarter (October-December 2000) and third quarter (January-March 2001) reimbursement requests until May 18, 2001. The reimbursement requests were submitted late due to a cash balance in the Consortium's bank account (see finding F.).

REFERENCES:

Cal-SOAP Agreement (G-00-011), Section 6.D, page 3
Cal-SOAP Operations Handbook, Section 5
Cal-SOAP Operations Handbook, Appendix B, Calendar

REQUIRED ACTIONS:

The Fiscal Agent and the Project Director should work together to ensure the reconciliation and reporting of Cal-SOAP funds on a quarterly basis to the Commission as required in the Cal-SOAP agreement.

Additionally, the Consortium must provide written procedures and internal control measures that will be implemented to ensure that the institution reconciles its records as required by the Cal-SOAP Agreement. The procedures must include time frames, staff titles, and specific areas of responsibilities as it relates to the Cal-SOAP reconciliation.

CONSORTIUM RESPONSE:

VLS and the director have been working together this year to ensure reconciliation and reporting of Cal-SOAP funds are accurate on a quarterly basis to CSAC as required in the Cal-SOAP agreement.

Action in Place: Procedures Manual will provide the time table for when this should occur. Constant communication between the Executive Board and the Director will mandate the reporting of expenditures and reimbursements.

AUDITOR REPLY:

The Consortium's action is deemed acceptable.

FINDINGS AND REQUIRED ACTIONS (continued)

E. REVIEW OF ADMINISTRATIVE AND ACCOUNTING CONTROLS:

FINDING 1: Cal-SOAP Funds Were Not Reconciled

During reconciliation of the Consortium's fiscal documents it was discovered that Cal-SOAP funds were not reconciled.

DISCUSSION:

The Commission allocates funds appropriated by the Legislature on the basis of annual proposals made by the Consortia operating projects. The Commission expects projects to maintain adequate fiscal and managerial controls to ensure proper expenditures of state appropriations. No state-apportioned funds may be carried over from one fiscal year to the next. Any unclaimed funds at the end of the fiscal year will revert to the General Funds and may no longer be claimed.

A reconciliation of the account for the 2000-01 fiscal year disclosed an unexpended ending balance as of June 30, 2001 of \$295,551.73 as shown below:

Unexpended Funds Distribution		
Reconciled Bank Balance on June 30, 2001		\$ -8,308.52
Prop. 98 reimbursement for 2000-01		
Warrant #04944801 dated 6/13/01	\$92,147.92	
Warrant #06949138 dated 2/11/02	80,855.89	173,003.81
General Fund reimbursement for 2000-01		
Warrant #04944805 dated 6/13/01	\$142,963.91	
Warrant #06949137 dated 2/11/02	51,960.57	194,924.48
Loan Reserve reimbursement for 2000-01		
Warrant #04944809 dated 6/13/01	7,599.36	
Warrant #06963197 dated 2/15/02	2,624.20	10,223.56
Fifth Quarter expenditures		-74,291.60
Unexpended Ending Balance at June 30, 2001		\$295,551.73

Figures for the distribution of the unexpended remaining balance of \$295,551.73 were developed using revenues and expenditures from work papers provided by the Consortium's CPA and information obtained from the UC Chancellor's Office. The unexpended funds were allocated to three funds: GEAR UP, UC, and Cal-SOAP (CSAC). The balances for GEAR UP and UC were computed using the CPA workpapers, except for an additional \$8,848 adjustment to the UC funds that was not noted on the CPA workpapers. The remaining balance was considered as Cal-SOAP (CSAC) as shown on the next page:

FINDINGS AND REQUIRED ACTIONS (continued)

Unexpended Funds Distribution	
GEAR UP	\$77,928.00
UC	\$58,435.00
Cal-SOAP (CSAC)	\$159,188.73
Unexpended Funds to be Returned	\$295,551.73

The unexpended Cal-SOAP amount of \$159,188.73 includes unexpended funds noted in fiscal years 1999-00 (\$28,332.57) and 2000-01 (\$13,289.43) as shown below:

1999-00 Reconciliation	
1999-00 CSAC Reimbursements per Requests	\$260,198.84
1999-00 Expenditures per Profit/Loss Statements	-\$231,866.27
Unexpended 1999-00 Funds to be Returned	\$28,332.57

2000-01 Reconciliation	
2000-01 CSAC Reimbursements per Requests	\$378,151.85
2000-01 Expenditures per Profit/Loss Statements (July 2000-June 2001)	-\$290,370.82
2000-01 Expenditures per Profit/Loss Statements (July 2001-September 2001)	-\$74,291.60
Unexpended 2000-01 Funds to be Returned	\$13,489.43

The remaining amount of \$117,336.73 (\$159,188.73-\$28,332.57-\$13,489.43) was composed of funds accumulated in the past fiscal years.

REFERENCES:

Cal-SOAP Program Operations Handbook, 1996, Chapter 4, pages 24-25
Cal-SOAP Operations

REQUIRED ACTION:

The Consortium must return the **\$159,188.73** to the Commission. Additionally, the Consortium must submit the procedures that will be implemented to ensure that all reimbursements requested are expended during the appropriate fiscal/contract year and any unused funds are returned to the Commission.

CONSORTIUM RESPONSE # 1:

Based on the reconciliation prepared by Vicenti, Lloyd & Stutzman, the amount determined to belong to the California Student Aid Commission is \$121,688.73. This amount is \$37,500 less than the amount included in the draft Program Compliance Office California Student Opportunity & Access Program Review Report for 2000-01 Award Year.

FINDINGS AND REQUIRED ACTIONS (continued)

The \$37,500 was received in fiscal year 2000-01. Unfortunately, the previous fiscal agent is unable to provide documentation as to the source of these funds. We have requested support documentation from the California Student Aid Commission to verify that these funds were received from them. This request was made during a teleconference call with individuals from the South Coast Consortium, the California Student Aid Commission and Vicenti, Lloyd & Stutzman. Pending documentation from the California Student Aid Commission, we are working with other funding sources to determine if the funds came from them. Once identified, we will work with the appropriate agency to document whether expenses were incurred against these funds, negotiate our ability to spend these funds on a going forward basis, or return the funds. We will document this resolution through correspondence to the California Student Aid Commission.

Since the Consortium is now being funded on a cost-reimbursement basis and all expenditures have appropriate supporting documentation, no excess funds will be received in the future.

The Consortium has now implemented the assistance of Vicenti, Lloyd and Stutzman (VLS), a CPA firm, in compiling financial statements and supplementary schedules on a monthly basis. Procedures related to this process include:

1. Establishing an accounting system maintained by VLS to generate monthly financial statements and other schedules as necessary.
 - a. The accounting system in place is Non profit Books, which allows the Consortium to see financial information in a variety of different formats.
2. The Director of Cal-SOAP submits all payment requests with supporting documentation to VLS for processing.
 - a. Payment requests include expense information, such as the description, expense category, grant/program chargeable and expense date.
 - 1) A discovery made during the review of prior years was that it was unclear which grant year some expenditures were allocated towards. In order to alleviate this problem, the expense date is clearly listed on the payment request and the accounting records accurately reflect the month the expense was incurred in.
 - 2) VLS updates accounting records based on information submitted on the payment request.

FINDINGS AND REQUIRED ACTIONS (continued)

- b. All checks are maintained and secured by VLS, including voided checks.
 - c. VLS prepares the checks and returns them to the Director for signature and mailing.
- 3. The Director submits all cash receipts to VLS for posting to accounting records.
 - 4. Payroll information is submitted to VLS, who in turn processes and submits the information to ADP for preparation of the actual payroll checks. All changes to payroll information are made through VLS. Allocation of payroll expenditures is performed by VLS based on information provided by the Consortium for each employee when they are hired.
 - 5. Bank reconciliations are performed by VLS on a monthly basis. Copies of the bank reconciliation and statement are forwarded to the Consortium Treasurer as an internal control measure.
 - 6. Financial statements are prepared by VLS on a monthly basis and forwarded to the Director and Consortium Treasurer for review. These financial statements consist of a:
 - a. Balance Sheet
 - b. Profit & Loss Statement
 - c. Functional Expense Report
 - 1. This report allows the Director to easily review expenditures that have been charged to the various grants/programs.
 - 2. This report can also be generated on a quarterly basis and is the support for reimbursement requests submitted to the Commission

AUDITOR REPLY # 1:

Based on the reconciliation supplied to the Commission by the Consortium's CPA (VLS), the amount computed as to be returned to the Commission was as follows:

Unexpended Funds Distribution	
GEAR UP	\$ 77,928.00
UC	58,435.00
Cal-SOAP (CSAC)	159,188.73
Unexpended Funds to be Returned	\$295,551.73

Since the Consortium records were in such poor condition, we must rely on the CPA's reconciliation. According to the reconciliation developed by VLS the only revenues received by the Consortium during the 2000-01 award year were as noted on the next page:

FINDINGS AND REQUIRED ACTIONS (continued)

Revenues	
Cal-SOAP – PROP 98	\$ 92,498.00
Cal-SOAP – SOAP	142,964.00
Cal-SOAP – Loan Reserve	7,599.00
GEAR UP	120,000.00
Unknown	0.00
Total revenues	\$362,711.00

Since all of the funds are accounted for, it appears that the funds in question were Cal-SOAP funds.

In order to close this finding, the consortium must remit a check to the Commission in the amount of **\$159,188.73**.

Also, the Consortium has been funded on a reimbursement basis since the 1996/97 award year and since that time the Consortium has submitted reimbursement requests in excess of their actual costs. With the addition of the accounting firm (VLS) assuming the accounting duties it would appear that this should not be a problem in the future.

CONSORTIUM RESPONSE # 2:

Enclosed you will find a check in the amount of \$121,688.73. This is the amount that Vincenti-Lloyd-Stutzman has reconciled as being surplus from the Commission's finding. On May 1, 2003 we presented this situation to the governing board (complete membership) and it was not satisfied that \$159,188.73 was surplus to the Commission. The SCC invested funds in having an audit of its own and its CPA clearly found that \$121,688.73 is owed to the Commission. The difference of \$37,500 is substantial enough to merit that the SCC request the Commission provide proof that a balance is owed. The surplus funding for the University of California was confirmed not only by the SCC's CPA but also the budgeting agents of the UC system. The SCC requests that the Commission follow the same procedure as the budgeting agents of the University of California.

AUDITOR REPLY # 3:

On July 2, 2003, CSAC received notice from the State Controller's Office that the check received from the South Coast Cal-SOAP in the amount of \$121,688.73 was returned due to insufficient funds.

On August 13, 2003 a teleconference was held to discuss the returned check and the steps that would need to be taken in order to correct the findings noted in the review. One of the items discussed, was the Commission's concern about the Consortium's ability to operate the project once the funds noted in the finding were returned to the Commission. It appears evident that

FINDINGS AND REQUIRED ACTIONS (continued)

the Consortium is using these “unexpended funds” to operate the program. Without the “unexpended funds”, what source of funding would the Consortium have to continue the operation of the program? A copy of the Consortium's monthly expenditures for the 2002-03 fiscal year to evaluate the amount of fund the Consortium expends each month was requested.

In addition, we requested the Consortium to propose a repayment schedule for the \$121,688.73 and to supply written confirmation that the \$37,500 in funds that the Consortium is questioning, were in fact received from another source and thus would not be required to be returned to the Commission.

A letter dated September 3, 2003 summarized the issues between the California Student Aid Commission and the South Coast Cal-SOAP Program as discussed during our teleconference meeting of August 13, 2003. It confirmed the actions that the program agreed to take in order to resolve currently outstanding compliance findings noted in the review. The project agreed to take the following actions:

1. Restructure the Governing Board
2. Confirm that operating capital is available for fiscal year 2003-04
3. Verify that a reliable fiscal management system is in place
4. Accept and confirm a schedule of repayment of state funds

CONSORTIUM RESPONSE # 3:

On October 20, 2003, the Consortium supplied the Commission with revised bylaws dated September 9, 2003, document the function, voting and duties of the Governing Board and the Executive Board which now is in compliance with CEC 59561. The bylaws document the restructuring of the Governing Board that complied with the legal requirements.

Based on the records maintained by Vincenti-Lloyd-Stutzman, it appears the South Coast Cal-SOAP average monthly expenditures for the 2002-2003 fiscal year was \$22,000. The first Quarter was the least expensive and the fourth quarter the most expensive, however the Consortium believes that \$25,000 should serve as a minimum level of operating capital for the Cal-SOAP program. The Consortium plans to hold fundraisers throughout the year to raise the operating capital for the Cal-SOAP program. A standing committee has been established to accomplish this feat. The following programs have been slated for this year:

- Golf Tournament
- Comedy Night
- Membership Dues
- Donations from community organizations and individuals

FINDINGS AND REQUIRED ACTIONS (continued)

The Consortium now has a contract with Vincenti-Lloyd-Stutzman CPA's and has supplied policies and procedures that document a reliable fiscal management system is in place.

The Consortium proposes the following repayment schedule:

November 10, 2003	\$30,422.18
Feb 9, 2004	\$30,422.18
Apr 12, 2004	\$30,422.18
June 14, 2004	<u>\$30,422.18</u>
Total	\$121,688.72

AUDITOR REPLY # 3:

The Commission has accepted the responses from the Consortium on the following actions that were required in the August 13, 2003 teleconference and the follow-up letter dated September 3, 2003:

1. Restructure the Governing Board – the revised structure appears to meet the requirements of the Cal-SOAP law.
2. Verify that a reliable fiscal management system is in place – the policies and procedures appear to document a reliable system
3. Accept and confirm a schedule of repayment of state funds -the Commission has accepted the proposed repayment schedule submitted by the Consortium in the amount of \$121,688.72. Furthermore the Consortium submitted a written explanation in regards to the \$37,500 in question, which was accepted by the Commission's Executive Director and the \$37,500 will not be required to be returned to the Commission.

The Commission did not accept the response concerning the confirmation of operating capital available for fiscal year 2003-04. The response did not address the continuing fiscal operation of the Consortium once the "unexpended funds" were returned to the Commission. It does not appear the Consortium could generate the amount of funds necessary to operate the Consortium on an ongoing basis.

The Commission's Audit Committee Chair requested that the Board Chair attend the next Audit Committee meeting to be held on November 20, 2003 to discuss the South Coast Cal-SOAP Compliance review findings.

On November 20, 2003 at the Commission's Audit Committee meeting the Consortium members in attendance discussed the compliance review findings and the actions the consortium is implementing to address the findings.

The Audit Committee instructed the Commission's Executive Director to contract with the Consortium for a six month period, July 1, 2003 through December 31, 2003. Continued funding for the remainder of the fiscal year will

FINDINGS AND REQUIRED ACTIONS (continued)

be based on the Consortium obtaining an appropriate fiscal agent to provide sufficient operating capital to finance the program operation.

There was additional discussion with the Consortium about securing a lead educational agency to act as fiscal agent for the Consortium. With a fiscal agent supplying the operating funds for the project, the Commission would no longer have a concern about the Consortium having sufficient operating capital to finance the program operation.

CONSORTIUM RESPONSE # 4:

The Consortium notified the Commission that CSU Fullerton will assume the role of fiscal agent for the South Coast Cal-SOAP Consortium and are in the process of finalizing a memorandum of understanding.

On February 9, 2004, the Consortium notified the Commission that the Consortium would not be able to meet the February 9, 2004 agreed upon payment of \$30,422.18 and requested an extension.

AUDITOR REPLY # 4:

The following is the agreed upon repayment schedule dates and amounts and the dates received by the Commission.

November 10, 2003	\$ 30,422.18	Received on November 13, 2003
Feb 9, 2004	\$ 30,422.18	Received on March 8, 2004
Apr 12, 2004	\$ 30,422.18	Received on April 9, 2004
June 14, 2004	<u>\$ 30,422.18</u>	Received on June 6, 2004
Total Repaid	\$121,688.72	

Continued funding for the South Coast Cal-SOAP was contingent on the Consortium making the payments as agreed upon in the repayment schedule and obtaining an appropriate fiscal agent.

In a letter dated March 24 2004, the Consortium notified the Commission that a Memorandum of Understanding (MOU) between CSU Fullerton had been completed and it allows the university to act as the South Coast Cal-SOAP fiscal agent for the remainder of the current fiscal year.

The Commission acknowledges that the Consortium has mad notable efforts to carry out corrective actions. However, we have determined that these efforts were insufficient in demonstration that the South Coast Cal-SOAP Consortium is able to operate a fiscally sound and properly managed project. The Commission will issue a Request for Proposal (RFP) to provide Cal-SOAP services in the area for the upcoming 2004-05 fiscal year.

FINDINGS AND REQUIRED ACTIONS (continued)

E. REVIEW OF
ADMINISTRATIVE
AND ACCOUNTING
CONTROLS:

FINDING 2: Voided Checks Are Not Retained or Properly Documented

A review of negotiated checks for the review period revealed 4 voided checks that could not be supported by copies of the voided checks or supporting documentation.

DISCUSSION:

All Cal-SOAP transactions must be supported by appropriate accounting records in accordance with generally accepted accounting principles and practices. Appropriate accounting records include, but are not limited to, cash receipts, disbursement journals, bank reconciliation, and all other accounting records necessary to account for all transactions. The Commission requires certain internal fiscal controls to provide assurances that Cal-SOAP funds are used for authorized purposes. Projects should have full accountability of check stock and ensure all cash disbursements are properly recorded in the accounting records.

Checks No. 2862, 2805 and 2783 appeared as voided checks on the ledgers, but copies of neither the checks nor the documentation to initiate the void could be located. Check No. 2948 was noted as void on the ledger, but according to the bank statement the check was cashed.

REFERENCES:

Cal-SOAP Program Operations Handbook, 12/6/96, Section 5, pages 34-35
Cal-SOAP Operations Handbook, October 2001, Section 6, page 13

REQUIRED ACTION:

The Fiscal Agent and the Project Director should work together to ensure all documentation regarding expenditures is retained. The consortium must provide written procedures and internal control measures that will be implemented to ensure that the institution retains all documentation to support all fiscal transactions.

CONSORTIUM RESPONSE:

Incorporated in response to finding E.1, the Consortium's action is deemed acceptable.

FINDINGS AND REQUIRED ACTIONS (continued)

E. REVIEW OF
ADMINISTRATIVE
AND ACCOUNTING
CONTROLS:

FINDING 3: No Separation of Duties in the Fiscal Operation

A review of the Consortium's internal fiscal controls revealed that there was no fiscal separation of duties.

DISCUSSION:

The Commission expects projects to maintain basic fiscal and managerial controls to ensure proper expenditure of funds. Internal fiscal controls provide management with assurances that Cal-SOAP funds are safeguarded from unauthorized use. The Commission requires separation of duties over cash receipts, accounts receivables, cash disbursements, and personnel/payroll function.

According to the Fiscal Agent and the Interim Project Director, all payment requests including payroll were approved by the Project Director. The requests for payments were sent to the Fiscal Agent, who prepared the checks. The unsigned checks were returned to the Project Director who then signed all checks including checks payable to the Project Director.

REFERENCES:

Cal-SOAP Program Operations Handbook, Chapter 5, pages 33-36

REQUIRED ACTION:

The Consortium in conjunction with the Fiscal Agent must create basic fiscal internal controls to ensure that funds are being used appropriately. The Consortium must provide the policies and procedures that will be implemented to ensure that proper separation of fiscal duties is maintained.

CONSORTIUM RESPONSE # 1:

Incorporated in response to finding E.1

AUDITORS RESPONSE # 1:

The proposed policy for fiscal operations does not ensure proper separation of duties. Although checks are maintained and secured by VLS, all checks are returned to the Project Director for signature including checks made payable to the Project Director. The policy must have checks made payable to the Director, approved and signed by a third party (i.e. Governing Board Chair).

FINDINGS AND REQUIRED ACTIONS (continued)

CONSORTIUM RESPONSE # 2:

There was an oversight in section c. The checks made out to the Director are signed by the Chair or Treasurer of the Consortium. The SCC will be adding that to the procedures manual, which should be completed by the end of the summer or early fall 2003.

AUDITORS RESPONSE # 2:

The Consortium's action is deemed acceptable.

OBSERVATIONS AND RECOMENDATIONS

OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION : No Written Agreement Between The Consortium And The Fiscal Agent

The South Coast Consortium does not have a mutually acceptable written agreement with a member of the Consortium to serve as Fiscal Agent. SPIRITT Family Services has been performing the duties of Fiscal Agent as a favor to a past Consortium board member. The Consortium believed SPIRITT was acting as a fiscal agent, but discovered that SPIRITT was solely providing bookkeeping services. Without a written agreement detailing the duties and responsibilities of the Fiscal Agent, there could be a misunderstanding of the Fiscal Agent's role in the administration of the Cal-SOAP program.

RECOMMENDATION:

The Consortium and the Fiscal Agent should negotiate a written agreement to define the duties and responsibilities of the Fiscal Agent and the Consortium. Furthermore, the current, October 2001, Cal-SOAP Program Operations Handbook recommends that the Consortium and the Fiscal Agent have an agreement.

CONSORTIUM RESPONSE:

Vicenti, Lloyd, & Stutzman and the South Coast Consortium of Schools and Colleges have a written contract. VLS was hired in June of 2002 and the contract carries through June of 2003. A written contract will be set in place annually.