



Peralta Community College District

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Office of Finance and Administration

Memorandum

To: Dr. José M. Ortiz, Chancellor

From: Ronald P. Gerhard, Vice Chancellor

Date: January 22, 2013

Subject: Board Report

2012-13 Budget Variance Reports

Attached are budget variance reports for the District's largest funds: Unrestricted General Fund; Measure B – Parcel Tax Fund; Restricted General Fund; and Measure A Bond Fund. These reports summarize activities recognized during the period of July 1, 2012 through December 31, 2012. Through the first six months of the fiscal year, the District continues to recognize revenue and spend within expectations and budget parameters. It should be noted that for purposes of reviewing and monitoring general operations, the Unrestricted General Fund and Measure B – Parcel Tax Fund should be reviewed collectively as the primary purpose of Measure B is to support and maintain course offerings and services to students.

Governor's Proposed 2013-14 Budget

On January 10, 2013, the Governor released his Budget Proposals for 2013-14. The Governor's Proposed Budget is considered the start of the budget discussions and negotiations that ultimately lead up to the State's final budget. The Governor's Proposed Budget reflects the fact that the State economy is no longer shrinking and that Proposition 30 has taken some of the pressure off of the State to find solutions to deficits. This Proposed Budget includes higher funding for all segments of education.

Specific to Community Colleges, the Proposed Budget includes an increase of \$196.9 million (or 3.6%) to general apportionments. The allocation of these funds between restoration of imposed workload reductions and cost-of-living (COLA) adjustment are to be determined by the Board of Governors (BOG). However it is allocated, Peralta's proportionate share of this new revenue would be approximately \$3.7 million. Additionally, the Budget Proposal includes a deferral buy down of \$179 million that will reduce the current level of short-term borrowing needed for cash flow purposes. Peralta's proportionate share of this deferral buy down would be approximately

\$3.4 million. Please note, these funds would not materialize in additional revenues for the District and would have minimal budgetary impact.

The Governor also proposes various policy changes. The three most significant changes are: 1) placing a 90 semester unit cap placed on the number of units a student could take and for which the District could receive State funding; 2) moving from the census date funding model to funding based upon completion; and 3) moving Adult Education from k-12 to community college.

District's 2013-14 Budget Development Calendar

The 2012-13 Budget Development Calendar is on the January 22, 2013 calendar in accordance with Administrative Procedure 6200, "Each January the Board will adopt a budget development calendar that identified activities and sets dates for each step in the budget development process." Using this calendar, the District will ensure that a budget is developed through the established shared governance process, that the budget is developed using data and best practices, and that the Board of Trustees will review and approve a Tentative and Final Adopted Budget for the District within the timeframes prescribed in Title V.

2012 Audit Findings Status Update

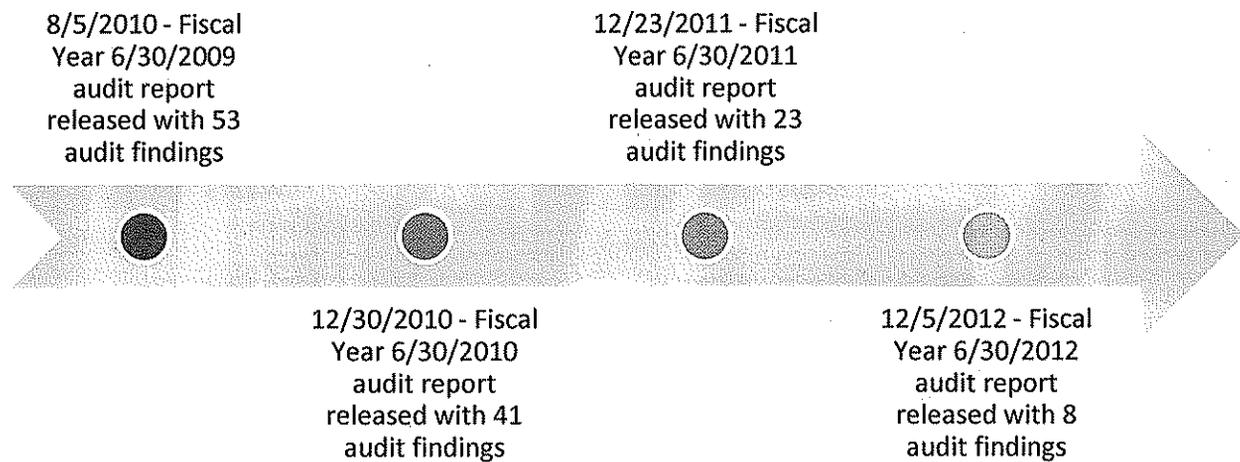
The District continues to make significant progress towards resolving all outstanding audit findings noted within the annual audited financial reports for the last four fiscal years (2009, 2010, 2011, and 2012). Audit findings typically represent items the external auditors determined, through the course of conducting their audit, involve deficiencies in internal controls that could result in material misstatements in the District's financial statements. The major types of audit findings are: 1) financial accounting and reporting related, 2) non-compliance with Federal Single Audit requirements, and 3) non-compliance with State program laws and regulations.

Further, audit findings are then classified in terms of severity either as Material Weaknesses (most severe) or Significant Deficiencies (least severe).

The table below provides an overview of the number and types of findings reported within the last four annual financial reports.

Types and Classification of Findings - 4 Year History				
Type of Audit Findings	2011-12	2010-11	2009-10	2008-09
Financial Accounting and Reporting				
Audit Findings	0	12	25	30
Single Audit Findings	4	7	9	13
State Compliance Audit Findings	4	4	7	10
Total Audit Findings	8	23	41	53
Classification of Audit Findings				
Material Weaknesses	0	5	17	19
Significant Deficiencies	8	18	24	34
Total Audit Findings	8	23	41	53

Given that the fiscal year 2008-09 audit report was released on August 5, 2010, the District has expeditiously taken corrective actions to fully address 49 of the 53 audit findings contained in the 2009 audit report within a period of 28 months.



In a concerted and focused effort, the District has reduced the overall number of audit findings from 53 to 8 and has completely eliminated all previous audit findings classified as material weaknesses (this was strategic, as they are more severe by nature and often require more resources and time to implement corrective action). Further, of the existing 8 audit findings,

none found that the District misappropriated or misspent any funds on activities outside of the funding terms and conditions associated with the funding source and there are no questioned costs that would require the District to return any funds.

The District continues to track and monitor the status and progress made on each of the 8 existing audit findings through the use of a Corrective Action Matrix (CAM). The CAM is a living document; it is constantly changing to reflect the status and continual progress made toward resolving the various findings. The CAM is also used as a tool to assign accountability and responsibility (Responsibility/Point) to managers for implementing corrective action specific to each audit finding within a defined time frame (Due Date). The CAM dated January 3, 2013 is provided below.

2011-12 Audit Findings					
Audit Finding Number	Corrective Action	Responsibility/Point	Due Date	Status	Systematic/Source Integration
2012-1 TIME AND EFFORT REPORTING Prior year audit finding 2011-14	Develop procedures and controls over compliance, specifying how and when time certification processes are to be completed.	Responsible: Vice Chancellor for Finance & Administration Point: Associate Vice Chancellor for Finance	March 15, 2013	The District has developed the necessary procedures. The cause for the reoccurrence of this audit finding is due to time and effort certifications not being completed and submitted in a timely manner.	Currently performed manually. The District released a Request for Qualifications seeking a vendor to assist with the implementation of the Time and Effort module within PeopleSoft. Implementation of this module will create and integrate within current

					<p>business processes, procedures and control for the collection of accurate data.</p> <p>The implementation will begin after the PeopleSoft Upgrade project has concluded (projected to be by Spring 2013)</p>
<p>2012-2</p> <p>PROCUREMENT, SUSPENSION, AND DEBARMENT</p> <p>Prior year audit finding 2011-15</p>	<p>Verify entities contracted with for services are not suspended or debarred.</p>	<p>Responsible:</p> <p>Vice Chancellor for Finance & Administration</p> <p>Point: Director of Purchasing</p>	<p>January 31, 2013</p>	<p>The District has implemented a procedure in which verification of the entities contracted with for services are not suspended, debarred, or otherwise excluded from providing services.</p>	<p>Completed - Procedure created and implemented. Training is ongoing.</p>

<p>2012-3</p> <p>FINANCIAL REPORTING</p>	<p>Develop and implement procedures to ensure all financial reports are reviewed at the District prior to submission to the granting agencies.</p>	<p>Responsible:</p> <p>Vice Chancellor for Finance & Administration</p> <p>Point:</p> <p>Associate Vice Chancellor for Finance</p>	<p>March 15, 2013</p>	<p>Draft procedures are being developed.</p>	<p>Once procedures are developed and input sought by constituents, training will be held to educate users on the appropriate procedures.</p>
<p>2012-4</p> <p>EQUIPMENT MANAGEMENT</p> <p>Prior year audit finding 2011-17</p>	<p>With the newly developed procedures in place and bi-annual inventory taken, procedures are being implemented that will distinctively tag equipment purchased with federal grant funds.</p> <p>Prior year corrective action - physical inventory of the federally purchased equipment taken bi-annually – reconciled – written procedures prepared on inventory controls – safeguarded and accounted for. Completed.</p>	<p>Responsible:</p> <p>Vice Chancellor for Finance & Administration</p> <p>Point: Director of Purchasing</p>	<p>March 15, 2013</p>	<p>Draft procedures have been developed and the manager on point is working with the Receiving Department and IT on implementation.</p>	<p>Operational procedures have been developed and are in the process of being implemented.</p>

<p>2012-5</p> <p>STUDENTS ACTIVELY ENROLLED</p> <p>Prior year audit finding 2011-20</p>	<p>Program written to allow the Admissions and Records Office to identify the rosters that were not properly turned in by instructors. The Admissions and Records Office will follow up with instructors on requirements to identify students who are not enrolled.</p>	<p>Responsible: Chancellor</p> <p>Point: Vice Chancellor of Educational Services, Vice Chancellor of Student Services and Vice Chancellor for Finance & Administration</p>	<p>March 15, 2013</p>	<p>Program will be written to allow Admission and Records Office to identify the rosters that have been turned in by the instructors to determine completeness and accuracy.</p>	<p>Training by Staff Development Coordinator of Faculty on the correct use of rosters and grade reports.</p> <p>Regular follow up with instructional staff and administration on the campus.</p> <p>Regular reports distributed to Presidents.</p>
<p>2012-6</p> <p>CONCURRENT ENROLLMENT</p>	<p>Update Admissions and Records system and processes so that all special admit/concurrent enrollment forms are properly retained and filed for inspection and review.</p>	<p>Responsible: Chancellor</p> <p>Point: Vice Chancellor of Student Services</p>	<p>March 15, 2013</p>	<p>Departmental procedures and processes are being developed and will be implemented to ensure all supporting documents are retained and on file.</p>	<p>Procedures currently being developed.</p>

<p>2012-7</p> <p>RESIDENCY DETERMINATION FOR CREDIT COURSES</p>	<p>The District should implement a procedure within Admissions and Records that effectively monitors the information provided by students through the CCCApply program to ensure that all students' residency determination are properly reported.</p>	<p>Responsible: Chancellor</p> <p>Point: Vice Chancellor of Student Services</p>	<p>March 15, 2013</p>	<p>The District will implement procedures within Admissions and Records that effectively monitor the information provided by CCCApply to ensure that all students' residency status are properly reported and documented.</p>	<p>Procedures currently being developed.</p>
<p>2012-8</p> <p>CALWORKS – REPORTING</p>	<p>Existing procedures are currently being reevaluated for internal control purposes.</p>	<p>Responsible: Chancellor</p> <p>Point: Vice Chancellor for Finance & Administration</p>	<p>March 15, 2013</p>	<p>Procedures will be assessed for points of failure and new controls will be implemented that will ensure all reports are reconciled to the general ledger prior to submission to the State.</p>	<p>Procedures currently under evaluation.</p>

We are confident that with time and devoted resources it will fully implement solutions to correct all existing audit findings and all future audit findings that may arise, in a manner similar to the progress that has been made within the last 28 months.

Cash Flow and TRANS

Two years ago, our Unrestricted General Fund had a negative cash balance of approximately \$30 million. At that time, the District had borrowed cash from the Measure A Bond Fund but the auditors noted it as an audit exception due to a legal opinion that stated using bond funds for inter-fund borrowing was not permissible. To resolve this audit finding the District began participating in the Community College League of California's (CCLC) TRANS program. Further, with the gradual rebuilding of our financial position our cash balances have also to improve but not to the extent needed to offset the State deferrals.

On July 1, 2012, our cash balance in the Unrestricted General Fund was approximately -\$10 million (negative \$10 million). The reason for this negative balance was because the State had owed us \$18 million from the prior year (2010/11), some of which was repaid in July 2012 and the remainder in October 2012. It should be noted that the traditional TRANS program we participated in did not alleviate negative cash balances at the end of the fiscal year. This was because we received the funds in August and repaid half of the balance due in December and the remainder in April. For example, in August 2012 we borrowed \$22 million. We repaid \$11 million in December 2012 prior to the holiday break and will repay the remainder in April 2013. As a result, we are projected to end this fiscal year with a negative cash balance of approximately \$7 million, with the State owing us \$15 million. Participation in this TRANS program will help address this negative cash position at the end of the fiscal year.

Through this program, we will receive the funds in March 2013 and the repayments would occur in August 2013 and December 2013; after the State has repaid us for the prior year deferral. The parcel tax does have an impact but due to the fact that we will be spending those funds for 1351 budgets beginning this month, any residual unspent funds will be immaterial compared to the size of the State deferrals.