The following findings represent significant deficiencies and material weaknesses related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2021-001 Financial Condition of the District - Going Concern

Criteria or Specific Requirement
Pursuant to *Education Code* Section 84040, the Board of Governors is required to adopt criteria and standards for the periodic assessment of the fiscal condition of California community college districts. The main criteria for assessment will be the percentage of unrestricted General Fund balance to all expenditures and other outgo of unrestricted General Fund. The minimum prudent unrestricted General Fund balance is 5% for community colleges. This minimum prudent level is considered necessary to ease cash flow problems, to deal with unexpected cost increases, and other fiscal uncertainties. If a district falls below this minimum prudent level, further review will be performed to determine if any fiscal problems exist.

Condition
Material Weakness - The District ended the 2020-2021 year with $3,383,465 in available reserves, which was comprised of unassigned balances held in the unrestricted General Fund. This amount represented 2.05% of the District's total expenditures and other financing uses. For the fiscal year ending June 30, 2021, the District's unrestricted General Fund revenues and other financing sources exceeded the District's expenditures and other financing uses by $3,689,938.

Questioned Costs
There were no questioned costs associated with the condition identified.

Context
The condition was originally identified as a material weakness during the year ended June 30, 2018 through the review of the District's reserve balances and the District's adopted budget for the fiscal years ending June 30, 2019 and 2020. For the fiscal year ending June 30, 2021, the District's unrestricted General Fund operating surplus created a 40% increase in the unrestricted General Fund ending fund balance. Based on the District's adopted budget for the fiscal year ending June 30, 2022, the District may be able to restore its unrestricted General Fund reserve balances to the minimum 5%. The 2021-2022 adopted budget includes further decreases in salary costs of nearly $19 million. Historically, such decreases have been a challenge for the District. Additionally, a significant portion of revenues included in the unrestricted General Fund for the year ending June 30, 2021 were related to one-time funding.

Effect
The District's fund balance and historical structural deficit raises substantial doubt about the District's ability to continue as a going concern.

Cause
The significant factors contributing to the District's condition include the following:

1) Significant deficit spending that occurred in prior fiscal years within the unrestricted General Fund.

2. Decline in revenues cause by loss of stability funding in the 2016-2017 fiscal year, combined with increasing cost of payroll and benefits creating a structural deficit.

Repeat Finding (Yes or No)
Yes. See prior year finding 2020-001 in the summary schedule of prior audit findings.

Recommendation
The District must actively monitor its budget to actual results to ensure that the District can maintain adequate unrestricted General Fund reserves. More importantly, the District should develop an aggressive fiscal management and budget stabilization plan that identifies a viable correction plan to ensure that fiscal solvency can be sustained. The stabilization plan should incorporate adequate expenditure mitigation objectives that can create an additional layer of "cushion" beyond the minimum reserve requirement. This will allow the District to accommodate future uncertainties in operational variances without impairing the District's reserves.

Views of Responsible Officials and Corrective Action Plan
The district has filled several vacancies in the district budget office to provide the management and oversight to monitor and implement necessary financial controls. As part of the budget development process for the 2021-22 fiscal year, the district included funding to meet the state mandated and board requirement for a reserve to meet any unanticipated emergencies. This process will be included as part of future budget development. This will ensure financial stability and solvency. Additionally, the district is in the process of evaluating its long-term contractual obligations and implementing staffing reorganizations and reductions to stabilize its future expenditures and align operations with anticipated revenues.

2021-002 Self-Insurance Fund Deficit Retained Earnings

Criteria or Specific Requirement
The accounting system used to record the financial affairs of any community college district shall be in accordance with the definitions, instructions, and procedures published in the California Community Colleges *Budget and Accounting Manual* (BAM). Colleges are also required to use fund accounting. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Condition
Material Weakness – The Self-Insurance Fund had a deficit retained earnings balance of $3,907,424 as of June 30, 2021.

Questioned Costs
There are no questioned costs associated with this finding.

Context
A deficit fund balance was originally identified at June 30, 2020. The beginning retained earnings balance of the Self-Insurance Fund as of June 30, 2020 was a deficit balance of $1,987,974, which further decreased during the year ending June 30, 2021. In the future, the deficit retained earnings

of $3,907,424 may require the District to encroach on the Unrestricted General Fund to cover costs of claims associated with the self-insured workers' compensation claims liability.

Effect
The Self-Insurance Fund has liabilities in excess of its total assets, resulting in a deficit retained earnings which encroaches on the Unrestricted General Fund's ending fund balance.

Cause
The deficit appears to have been caused by costs paid by the Self-Insurance Fund, in excess of in-District contributions and transfers from other funds to cover such costs.

Repeat Finding (Yes or No)
Yes. See prior year finding 2020-002 in the summary schedule of prior audit findings.

Recommendation
The District should review the activities with the Self-Insurance Fund and determine a funding plan to ensure the fund does not remain in a deficit. The District's year-end closing process should include a reconciliation and review process over fund balances to ensure ending balances are not in deficit. Deficit ending fund balances should be researched and reviewed prior to year-end closing.

Views of Responsible Officials and Corrective Action Plan
After reconciling the 2021-22 ending balance, as part of the budget development process for the 2022-23 fiscal year, the district will incorporate funding in its operational plan to address the deficit balance and stabilize the fund. Staff will also monitor expenditures in this area and address future costs for this activity through an appropriation and transfer from the general fund to keep the fund from experiencing future deficit balances.

2021-003 Load Banking

Criteria or Specific Requirement
The District offers load banking to eligible faculty employees whereby the employee may teach extra courses in one period in exchange for time off in another period. If the employee retires or is terminated before they utilize their accrued load baking balance, the District will pay the employee for the equivalent amount. The District records a long-term liability for this load banking balance.

Condition
Significant Deficiency – For the fiscal year ending June 30, 2021, the District's load banking balance included a deficit amount owed from faculty employees. In essence, faculty employees did not teach or taught less than required for a full-time faculty, but were paid their full salary without having an adequate balance in their load banking account.

Questioned Costs
There were no questioned costs associated with the condition identified.

Context
The deficit amounts noted in the load banking balance totaled $707,924 at June 30, 2021.

Effect
The District has spent funds for faculty employees, but did not receive the services from the

employee.

Cause
The cause appears to be lack of monitoring and oversight of the faculty employee load banking balance and requests in previous years. During the year ended June 30, 2021, the District implemented procedures to monitor and reduce deficit balances owed. However, the District will need to continue monitoring the balance to ensure the deficit is further reduced to a minimal amount.

Repeat Finding (Yes or No)
Yes. See prior year finding 2020-003 in the summary schedule of prior audit findings.

Recommendation
The District should continue monitoring to ensure no faculty employee utilizes more paid leave than they have accrued in their load banking balance. Additionally, the District should work with faculty employees to plan when they will teach extra courses to eliminate their deficit load banking balance.

Views of Responsible Officials and Corrective Action Plan
Negative load balances are a concern of the district, as we have experienced difficulty in having sufficient workload for faculty in some areas. With the COVID-19 pandemic in 2020-21, and its impact on the academic schedule, this inhibited our ability to adequately address this ongoing concern. The Office of Instruction is working with seventeen departments on load reconciliation, and will continue to schedule faculty to eliminate the negative load balances in accordance with Article 18.J of the District/AFT Collective Bargaining Agreement, which requires us to reconcile load balances within three semesters. With the addition of new accounting and budgeting staff, the district will assign the monitoring and oversight of this activity to its Supervising Fiscal Officer, who will work with the Office of Instruction to track and accrue this activity using the district management information system. The budget office will also review and provide load balance reports each semester to the Office of Instruction to assist with schedule planning and assignments to control and reduce accumulated balances.

The following findings represent significant deficiencies, material weaknesses, and instances of noncompliance including questioned costs that are required to be reported by the Uniform Guidance.

2021-004 Allowable Costs

Program Name: COVID-19: Higher Education Emergency Relief Funds (HEERF), Institutional Portion
Assistance Listing Number: 84.425F
Federal Agency: U.S. Department of Education
Pass-Through Entity: Direct Funded

Criteria or Specific Requirement
Uniform Guidance, 2 CFR 200.414: Indirect (F&A) costs
Uniform Guidance, 2 CFR 200.1: Definitions

Any non-Federal entity that does not have a current negotiated (including provisional) rate, except for those non-Federal entities described in appendix VII to this part, paragraph D.1.b, may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC).

Modified Total Direct Cost (MTDC) means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

Condition
Material Weakness and Noncompliance – The District incorrectly calculated indirect costs for the Institutional Portion of the HEERF program. The District utilized the de minimis indirect cost rate of 10%, but should have used their approved negotiated indirect cost rate which is valid through June 30, 2022. Additionally, the District included amounts recorded for lost revenue in their direct cost base. Lost revenues represent an estimate of revenues that were not earned by the District due to the coronavirus pandemic. They do not represent expenses of the District, and do not meet the definition of MDTC for inclusion in the indirect cost base. Additionally, they would not have met the requirements of the approved negotiated indirect cost rate agreement, which stipulates a direct cost base of salaries and wages including fringe benefits.

Questioned Costs
Questioned costs are $427,867 at June 30, 2021, which is the difference of the indirect cost charged to the program, and the indirect costs recalculated using the District’s approved negotiated indirect cost rate agreement.

Context
The District spent $9,397,651 under the COVID-19: Higher Education Emergency Relief Funds (HEERF), Institutional Portion. The District spent $16,947,230 associated with the Education Stabilization Fund program (ALN 84.425) in total.

Effect
The District is not in compliance with Allowable Costs requirements.

Cause
The District's indirect cost was not calculated in accordance with their approved negotiated indirect cost rate agreement.

Repeat Finding (Yes or No)
No.

Recommendation
It is recommended that the District implement review process for indirect cost calculation, which should include review of the approved negotiated indirect cost rate agreements, relevant grant agreements, and relevant federal guidance.

Views of Responsible Officials and Corrective Action Plan
District staff has received training on the calculation of this cost. Accounting staff will utilize the federally approved indirect cost rate of 30.44% on all allowable activities until June 30, 2022. We will then use the approved negotiated indirect cost rate after that date.

2021-005 Reporting

Program Name: COVID-19: Higher Education Emergency Relief Funds, Institutional Portion
CFDA Number: 84.425F
Federal Agency: U.S. Department of Education
Pass-Through Entity: Direct Funded

Criteria or Specific Requirement
Section 18004(a)(1) of The Coronavirus Aid, Relief, and Economic Security Act required that institutions that received the HEERF 18004(a)(1) Institutional Aid Portion award to publicly post the HEERF quarterly reporting form on their website no later than 10 days after the end of each calendar quarter, or as directed by the U.S. Department of Education.

Condition
Significant Deficiency and Noncompliance – During our testing over reporting for the institutional aid portion, we noted that the report required to be publicly available by January 10, 2021 following the end of the quarter ending December 31, 2020 available was posted on January 19, 2021 and therefore, the District did not meet the timeliness requirement.

Questioned Costs
There were no questioned costs associated with the condition identified.

Context
The District is required to report institutional grant metrics and other data within 10 days of the end of each calendar quarter, or as directed by the U.S. Department of Education. A sample of two reports was reviewed for compliance, with one report not submitted in a timely manner.

Effect
The College's quarterly report was not uploaded to their website within the required timeframe.

Cause
Staffing changes in the departments responsible for completing and posting the report resulted in delays.

Repeat Finding (Yes or No)
Yes. See prior year finding 2020-005 in the summary schedule of prior audit findings.

Recommendation
The District should ensure that reporting requirements and deadlines are clearly communicated to all staff, and procedures in place to ensure requirements and deadlines are met. The District should also ensure all documentation to support amounts reported is maintained in accordance with document retention guidelines.

Views of Responsible Officials and Corrective Action Plan
Staff have been actively monitoring the deadlines for submittal of these reports since the date of our last annual audit in February, 2021. District staff assigned to prepare and submit reports are utilizing a task list with deadlines for each report and are aware that an extension can be provided if requested. They also are working with district Informational Technology staff to ensure that reports are properly posted and uploaded to the district website. Since the December 2020 report, all succeeding HEERF reports have been submitted timely and posted on the website within the ten-calendar day time frame.

2021-006 Activities Allowed or Unallowed and Allowable Costs

Program Name: Adult Basic Education and ELA, Adult Secondary Education
CFDA Number: 84.002A
Federal Agency: U.S. Department of Education
Pass-Through Entity: California Department of Education

Criteria or Specific Requirement
The Uniform Guidance states that personnel costs for Federal programs should represent only "reasonable amounts for activities contributing and directly related to work under an agreement". Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. (2 CFR 200.430).

Condition
Material Weakness – Time and effort reporting, or another similar internal control activity to retroactively verify employee time spent on the program, was not performed consistently or in a timely manner for the year ending June 30, 2021.

Questioned Costs

There are no questioned costs associated with this finding.

Context
The federal program referenced above had a total of $912,485 in expenditures for the year ended June 30, 2021, of which $898,779 was associated with salaries and benefits.

Effect
The District is not in compliance with the federal requirements over personnel costs described in the Uniform Guidance. Additionally, without effective internal controls in place over personnel costs, the District risks noncompliance for program costs that could be material.

Cause
The District's review of personnel charges to identify the employee costs that should and should not be charged to the federal program was not performed consistently, or in a timely manner.

Repeat Finding (Yes or No)
Yes. See prior year finding 2020-006 in the summary schedule of prior audit findings.

Recommendation
The District should monitor personnel costs for federal program in accordance with their policies and procedures. The District should review personnel costs on a regular basis to ensure that costs charged are supported by allowable activities directly related to the program. Additionally, adequate supporting documentation should be retained for personnel charges for Federal grants.

Views of Responsible Officials and Corrective Action Plan
The grant management team will issue a time certification document for every classified and certificated employee working under the Adult Education grant, and employees will also be required to use a shared Google document to track their work. The designated grant manger will keep track of classified and certificated staff work with record keeping submitted to the Business Office. The district will assign the monitoring and oversight of this activity to the Supervising Fiscal Officer, who will work with the Office of Instruction to ensure compliance with federal policies and procedures. The district budget office is also implementing position control monitoring to ensure that all positions are properly coded to the appropriate budget lines.

The following finding represents an instance of noncompliance relating to compliance with state laws and regulations.

2021-007 Section 491 – Education Protection Account Funds

Criteria or Specific Requirement
California Constitution Article XIII section 36(e)(6) states that a community college district shall have sole authority to determine how the moneys received from the Education Protection Account are spent in the school or schools within its jurisdiction, provided, however, that the appropriate governing board or body shall make these spending determinations in open session of a public meeting of the governing board or body and shall not use any of the funds from the Education Protection Account for salaries or benefits of administrators or any other administrative costs. Each community college district shall annually publish on its Internet Web site an accounting of how much money was received from the Education Protection Account and how that money was spent.

Condition
The governing board did not make a spending determination in an open session of a public meeting of the governing board or body. The governing board did not publish on its Internet website an accounting of how it spent the money it received from the Education Protection Account.

Questioned Costs
There were no questioned costs. Based on testing EPA funds were spent on allowable expenses.

Context
The District expensed the Education Protection Account funds of $32,536,173 without holding an open session to make the spending determination for the funds received.

Effect
The District is not in compliance with state requirements.

Cause
The District governing board did not hold an open session to make spending determination for the Education Protection Account funds received.

Repeat Finding (Yes or No)
Yes. See prior year finding 2020-007 in the summary schedule of prior audit findings.

Recommendation
The governing board should hold an open session public meeting where they take action to adopt a plan in the form of a Board resolution to expend Education Protection Account funds received.

Views of Responsible Officials and Corrective Action Plan

The district held an open session for its 2021-22 Educational Protection Account funds at its November 16, 2021 board meeting. Prior staff were unaware of this constitutional provision, and while included in the annual budget plan, it was not presented for a separate open session. This requirement will be included as a part of the adoption budget presentation process.