STATE OF CALIFORNIA

GEORGE DEUKMEJIAN, *Governor*

COMMISSION ON CALIFORNIA STATE GOVERNMENT ORGANIZATION AND ECONOMY
1127 - 11th Street, Suite 550, (916) 445-2125
Sacramento 95814

INADEQUATE FINANCIAL ACCOUNTABILITY IN CALIFORNIA'S COMMUNITY COLLEGE SYSTEM

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IN CALIFORNIA'S
COMMUNITY COLLEGE SYSTEM

A Report

of the

COMMISSION ON CALIFORNIA STATE GOVERNMENT

ORGANIZATION AND ECONOMY

February 1986

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Honorable George Deukmejian
Governor of California

Honorable David A. Roberti
President pro Tempore of the Senate
and Members of the Senate

Honorable James Nielson
Senate Minority Floor Leader

Honorable Willie L. Brown, Jr.
Speaker of the Assembly
and Members of the Assembly

Honorable Patrick Nolan
Assembly Minority Floor Leader

Dear Governor and Members of the Legislature:

In August 1985, our Commission initiated a study of California's Community College System focusing on the adequacy of financial accountability in the system. Our Commission was particularly disturbed by the increasing pattern of deficit spending by certain districts, and the failure of the "system" to effectively respond and prevent its recurrence. To identify and evaluate the system deficiencies, we directed our study towards analyzing the adequacy of financial accountability in the system through case studies of the four college districts which completed their last fiscal year with operating deficits -- Los Angeles, Peralta, Lassen, and Chaffey.

Because of a substantial number of allegations of mismanagement in the Los Angeles Community College District, we dedicated a higher level of analysis towards reviewing the specific issues raised. A separate chapter of the report summarizes our findings regarding that particular district.

Overall, the Commission concluded that financial accountability in the system is fragmented with no central point of control. When we asked the simple question -- "Who is accountable and who is in charge?" -- no one could answer definitively. That, in our opinion, is unacceptable considering that the State spends more than $1 billion a year in supporting community colleges.

During the course of our study, the Commission held two public hearings, conducted numerous interviews, gathered extensive data which staff analyzed, and coordinated with the work of the Commission on the Review of the Master Plan for Higher Education. Among our Commission's specific findings are the following:

- California community colleges are facing increasing financial troubles. In 1985, twenty-five percent of the districts had "questionable" financial conditions with four completing the year with deficits.

- The financial problems of the four districts with deficits, as well as others, have been caused by long-term patterns of deficit spending, significant declines in ADA, inadequate reserves for contingencies, and poor management decisions by districts; that is, districts are not making the tough decisions necessary to operate within a balanced budget.

- The current governance structure shared by the State and local boards of trustees is confused resulting in a lack of accountability at all levels.

- The State Board of Governors and State Chancellor have (1) inadequate information to know how well the districts are managed; (2) inadequate authority to provide direction to districts -- districts can simply ignore them; and (3) inadequate authority to intervene, where appropriate, to set spending limits, require contingency reserves, conduct audits, and withhold State funds.

- Locally elected trustees are not as accountable to the local taxpayer as they were before Proposition 13. At least 60 percent of the funds come from the State; moreover, generally less than 15 percent of the registered voters vote for the trustees.

- The existing requirement that community college administrators hold one of two credentials severely limits the number of experienced professional administrators within the community college system.

- The existing funding mechanism based on average daily attendance is inappropriate and ineffective for higher education.

To improve the organization, management, and financial accountability of the California Community College System, our Commission has developed a series of recommendations which include the following:

1. Expand the authority of the Board of Governors and the State Chancellor's office to enable them to establish spending levels and priorities; set requirements for contingency reserves; conduct financial and management audits of districts; partially or fully withhold State funds where district management is unsatisfactory; and intervene in the management of a district where it fails to manage fiscal affairs properly.

2. Expand support for the development of the State Chancellor's management information system. Provide resources and authority to sample validate data submissions, and require accurate submissions under penalty of perjury.

3. Eliminate the requirement that community college administrators must have a credential.

4. Establish an "early warning" audit reporting system to provide local boards, the State Chancellor, and the Legislature the ability to anticipate and identify problem districts.

5. Consider implementing a categorical funding mechanism to replace the ADA formula. Such a shift, however, should only occur if the Board of Governors are provided many of the authorities discussed above.

California taxpayers spent more than $1.6 billion last year on its community colleges. Many districts spent their funds efficiently and effectively. Others failed in fulfilling that responsibility. We, as a Commission recognize the importance of local control. However, given the increased State responsibility for funding community colleges, we believe the system must be changed to enable the State to provide appropriate direction, and intervene where districts fail to act responsibly. If such reforms are not enacted, we believe the State will see a substantial increase in the number of the districts which report deficits, thus jeopardizing future funding for the entire system. In the end, the students will suffer the greatest losses because their educational services will have been sacrificed.

Respectfully submitted,

NATHAN SHAPELL, Chairman
James M. Bouskos, Vice Chairman
Senator Alfred E. Alquist
Mary Anne Chalker
Albert Gersten, Jr.
Haig Mardikian
Senator Milton Marks
Assemblywoman Gwen Moore
Mark Nathanson
Lester Oshea
Abraham Speigel*
Jean Kindy Walker
Assemblyman Phillip D. Wyman**

* Abraham Speigel was appointed January 9, 1986 to replace Brooke Knapp.

** Assemblyman Wyman does not support the recommendation that a revolving fund should be established within the State Chancellor's Office.

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EXECUTIVE SUMMARY

In 1985, the Chancellor for the State Community College System reported that up to 25 percent of California's college districts had "questionable" financial conditions. That same year, four districts--Los Angeles, Peralta, Chaffey, and Lassen--closed their fiscal year with operating deficits collectively in excess of $9 million.

Because of the many unanswered questions regarding financial accountability in the California Community College System, one of the largest college systems in the country, our Commission initiated a review of the system's ability to deal with financially-troubled districts. The purpose of the study was to determine the adequacy of financial accountability through a review of the financially-troubled districts, and present recommendations for reforms to the Governor, the Legislature, and special commissions and committees currently reviewing higher education.

The Commission began and concluded its study by asking one simple question, "Who is financially accountable, and who is ultimately in charge of the $1.7 billion spent each year in support of our community colleges?" Our Commission never received a clear answer to this most fundamental management question. In our view, such confusion and absence of financial accountability is unacceptable.

Chapter 2 of this report presents the Commission's detailed findings regarding financial accountability in the State system. Chapter 3 presents findings regarding eleven specific allegations regarding the Los Angeles Community College District which were submitted during the course of our study. Finally, Chapter 4 presents the Commission's recommendations.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Chapter 2: Who Is Accountable and Who Is In Charge in the California Community College System

Finding #1: California community colleges are facing increasing financial troubles as indicated by the number of emergency apportionments requested from the Legislature. The financial troubles have been caused, in part, by the long-term patterns of deficit spending, the significant decline in Average Daily Attendance (ADA), inadequate reserves, and poor management decisions by district boards of trustees and staff. Prior to 1980-81, financial troubles in college districts were quite rare and it was virtually unheard of for the State to need to "bail out" a district. That trend has shifted significantly. During 1984-85, 43 of the 70 districts spent funds in excess of their annual income, commonly referred to as "deficit spending." During the same year, four districts closed their books with deficits. Each of them had practiced deficit spending for at least three and up to five of the prior years.

While districts cannot necessarily control enrollment or the revenue formulas, they are in control of their expenditures. We concluded that at least two of the four districts with operating deficits did not make the tough decisions necessary to operate within a balanced budget. During periods of deficit spending, the Los Angeles and Peralta Districts approved expenditures which in the view of our Commission were imprudent and inappropriate in light of their respective financial conditions. These included items such as: redecorating the office of a contract lobbyist, providing parking and bus passes for employees, subsidizing a training retreat, and approving cost of living increases for faculty when there were inadequate funds. It is clear to our Commission that the current governance structure and lack of accountability has resulted in confusion and the opportunity for such poor management decisions.

Finding #2: The current shared governance structure causes confusion resulting in lack of accountability at all levels. The roles of local governing boards and the State Board of Governors often overlap each other causing confusion. Due in part to conflicting provisions in the Education Code, the Board of Governors has the impossible task of supervising the 70 community college districts while maintaining local rather than State control. Given the increased State financial participation as well as the increased State financial responsibility for districts such as Peralta, Lassen, and Chaffey, our Commission believes there now exists a need for additional State authority and accountability.

Finding #3: The Board of Governors and the State Chancellor's Office have inadequate information by which to govern. The Chancellor's office does not have a sufficient management information system to provide accurate, comparable system-wide information. Additionally, without the ability to fully integrate the information submitted to the State, basic questions such as the number of students enrolled in a specific program or the program cost per student cannot be answered. Finally, the State Chancellor does not have adequate authority or resources to ensure that the data submitted are accurate. As a result, the State cannot answer the question, "What are we buying for more than $1 billion, and exactly what does it cost California taxpayers?"

Finding #4: The Board of Governors and the State Chancellor's Office do not have adequate authority to provide direction to districts and take action against poorly managed districts. Although at least 60 percent (and up to 80 percent in some districts) of the funding available to the Community College System is provided by the State, the operational authority of the Board of Governors and the State Chancellor's office is primarily advisory. Under existing law, the Board of Governors cannot establish uniform spending limitations, establish contingency reserves, provide cash loans directly to districts, secure a loan which a district may obtain elsewhere, or unilaterally conduct an audit on the districts management practices.

Moreover, the responsibility of the State Chancellor's Office poses a conflict and is difficult to enforce given the limited authority of the State Chancellor's Office to take action against mismanagement or noncompliance. Without providing the State Chancellor's Office with sufficient authority to fulfill its obligation, questions such as "Who's in charge?" and "Who's accountable?" cannot be answered.

Finding #5: Accountability of locally elected trustees to the public has declined since the enactment of Proposition 13. Before the passage of Proposition 13, local property tax and other local revenues comprised 52 percent of the total funds available for community colleges. Accountability was of great concern to the local taxpayer since inefficient management, and particularly any unfunded financial obligations could ultimately result in a local property tax increase. However, today there is a constitutional limitation on property tax resulting in a shift of the financial impact of and responsibility for cost overruns and poor management practices to the State. Moreover, because local trustees are elected by a very small percentage of registered voters -- generally less than 15 percent -- local accountability is increasingly absent as a control over the system.

Finding #6: The ability of locally elected, part time trustees to critically evaluate programs and key decisions is constrained due to the Board's inherent dependency on the district chancellor and staff. Virtually all members of local boards of trustees serve part-time and have other full-time employment and obligations. Consequently, they are highly dependent on the analysis and recommendations of the district chancellor's office and his or her staff. The local boards do not have any staff or resources under their direct control to provide independent review and assessment although their agendas can be voluminous. We believe that the ramifications of key decisions made by the trustees must be fully understood prior to their approval. Without this understanding, the efficient management, and ultimately the solvency of a district, may be jeopardized.

Finding #7: The existing credential requirements for college administrators severely limits the number of professional administrators within the Community College System. The Education Code requires that administrators employed by one of the 70 community college districts must have either a Chief Administrative Officer credential or a Supervisor credential, both requiring, among other things, two years of experience as a faculty member at a community college. As a result, the selection process for administrative positions is significantly limited making it difficult, if not impossible, to employ a professional business manager without the required credential. In some cases, the system may even prevent the recruitment of administrators or faculty members from four-year institutions.

Finding #8: The State Chancellor's Office lacks the proper number and type of staff needed to regulate and provide educational leadership to the Community College System. Given the vast responsibilities of the State Chancellor's Office to regulate the Community College District, ensure compliance with statutory provisions, and provide educational leadership, the Chancellor and the President of the Board of Governors believe that the State Civil Service System does not provide the proper number and type of staff to perform its varied mandated responsibilities. Although, we believe that some of the functions related to compliance and regulatory aspects of the Chancellor's Office are similar to functions performed by other State agencies, we also believe that the responsibility of educational leadership is unique. Therefore, we believe that it may be appropriate to consider different personnel systems which would better enable the Chancellor to recruit the kinds of expertise he requires in his staff.

Finding #9: The existing Average Daily Attendance mechanism is inappropriate and ineffective for higher education. Since ADA is a single workload measure, it places undue emphasis upon enrollment failing to recognize that there are services other than instruction that are essential to the operation of the Community College System. Shifting to a categorical funding structure as proposed by the Post Secondary Commission, would allow districts to make curriculum decisions based on educational needs rather than revenue generated from average daily attendance. Nevertheless, we believe any change towards a categorical or differential method of funding should only occur if the Board of Governors and State Chancellor are provided expanded authorizations to ensure that funds are spent properly and in a manner consistent with educational priorities.

Chapter 3: Allegations Concerning Management Practices at the Los Angeles Community College District

During the Commission's review of the Community College System, many allegations regarding the Los Angeles Community College District were submitted to our office or presented in testimony during the public hearings. After reviewing each allegation, our Commission categorized them into the following eleven areas:

- Commingled funds
- Mission College
- Unallocated funds
- Selection of a life insurance carrier
- District Budget overhead
- Documentary file on Mexico
- District subsidized retreat to San Diego
- Student financial aid
- Conflict of Interest/Contracting Practices
- Community Services Classes
- Computer lab

Of the eleven areas, the first seven have been or are being resolved to the Commission's satisfaction. The remaining four have not been fully resolved and may require further investigation. Although, our review did not uncover significant nonfeasance, the Commission continues to be concerned with the number and types of charges submitted. Therefore, we conclude that at best, the nature and frequency of the allegations of mismanagement indicate a strained and tense relationship between administrators and many faculty and the need for substantially improved communications.

Chapter 4: Recommendations

Financial accountability within the California Community College System continues to be fragmented without any central point of control. To ensure enhanced State involvement and accountability in the financial operations of the Community College System the authority of the State Chancellor's Office and the Board of Governors must be significantly increased to be commensurate with their existing responsibility.

The following is a summary of our major recommendations, however, we encourage the reader to review Chapter IV in detail for a complete listing and understanding of the recommendations.

(1) The Governor and the Legislature should enhance the authority of the Board of Governors and the State Chancellor's Office to ensure fiscal accountability. Specifically, the Board and Chancellor should have the authority to:

withhold State funds
establish spending levels and priorities
provide cash loans from a revolving fund and secure third-party loans to districts
unilaterally conduct financial and operations audits
intervene in the management and administration of an individual district where the district fails to manage its fiscal affairs properly.

(2) The Legislature and the Governor should continue their support in the development and implementation of a management information system within the State Chancellor's Office. New authorities and resources should be provided to the Chancellor to ensure that data submissions are accurate.

(3) An "early warning" audit mechanism under the authority of the State Chancellor's Office should be established.

(4) The Governor and the Legislature should eliminate the sections in the Education Code that require Community College Administrators to hold a credential.

(5) The Board of Trustees for multi-campus districts should retain an independent auditor or audit staff to provide objective analysis of district operations.

(6) The Governor and the Legislature should consider the implementation of a categorical funding mechanism for Community Colleges. Such a formula for funding districts should only occur if new authorities, previously discussed, are provided to the State Chancellor and Board of Governors.

(7) The personnel system should allow the State Chancellor's Office the flexibility to hire "educational leaders." One option would be to incorporate the State Chancellor into the California State University Personnel System.

Recommendations for the Los Angeles Community College District include the following:

(1) The Auditor General should conduct a thorough management review of unresolved issues and other appropriate matters at the Los Angeles Community College District.

(2) Develop and implement a process for correcting fund balance discrepancies within a timely manner.

(3) Conduct a detailed analysis of the number of administrative staff at each of the nine campuses.

(4) The Governor and the Legislature should modify Section 72247 of the Education Code to permit Community College Districts to allow the district to charge administrators for the full cost of parking.

(5) Establish a budget and funding mechanism for the Community Service program.

Basic Statistics on the California Community College System

In 1985-86, the CCC will provide instruction to approximately 1.2 million students at 106 colleges operated by 70 districts throughout the State. Following is a summary of other vital statistics related to this, the nation's largest college system.

Enrollment: The CCC system is unquestionably the largest system of higher education in the U.S. Its enrollment, as of the fall of 1983, equaled 27 percent of all U.S. public 2-year institution enrollments, and 10 percent of all public and private college enrollments. Since 1960, community college enrollment has almost quadrupled; however, enrollment has declined steadily since its peak in 1981.

Faculty and Staff: In the fall of 1983, 60,356 persons were employed by California community colleges, not counting short-term, student, community services, or summer session personnel. This is about 5,000 fewer than the system's peak in 1977.

The number of full-time instructors has remained fairly constant at about 16,000 over the past decade. However, the number of part-time faculty has fluctuated dramatically having peaked at about 34,000 and declined to about 23,000 today. The average salary for a full-time faculty member is about $33,000; part-time instructors earn about $22.00 per hour.

Facilities: The 106 colleges utilize approximately 3,400 structures, 62,000 classrooms, and 43 million square feet of space with a replacement value of about $5 billion for facilities and $1 billion for equipment. Although some buildings date from the turn of the century, most were built in the 1960s.

Organization and Governance

The 70 community college districts incorporate virtually all of the State's territory and population. Districts vary in size from the Palo Verde Community College District in Blythe, with about 700 students and a budget of $1.3 million, to the Los Angeles Community College District with 120,000 students and a general fund budget over $180 million.

Perhaps because the CCC grew out of the K-12 system, its governing structure is similar. Each district is governed by a local board of trustees, usually having five or seven members. The local boards of trustees play a critical role in community college governance. These boards have authority to establish educational programs and set academic standards; enter into contracts; employ and assign personnel; and determine the districts operational and capital outlay budgets.

In many respects, the role and authority of the State Board of Governors of the CCC is less clear. The Board of Governors is composed of 15 members appointed by the Governor. With the exception of two seats which are designated for student and faculty representation and serve one and two-year terms, respectively, all members serve four-year terms.

Among the Board's most significant powers is its ability to select the State Chancellor, pass regulations binding on districts, and to allocate various State and federal funds (although not basic State support funds which are allocated by statutory formula).

The Board's responsibilities, as assigned by the Legislature, fall into several broad categories: (1) to provide leadership and direction for community colleges; (2) to establish and monitor standards; (3) to review and approve certain requests such as for new programs or facilities; (4) to administer aid funds to districts; and (5) to exercise "general supervision" over the community colleges.

The Chancellor's Office is the Board's operational arm with a State budget of about $4.4 million and another $1.9 million of Federal vocational education funds.

Instructional Programs

In many respects, community colleges offer a much broader selection of courses and instructional programs than the UC or CSU systems. Some argue that this is also a major source of problems in their operation.

A large number of students are attending community college courses for purposes of transfer to a four-year institution. Another large segment are in vocational programs working towards a certificate and/or a set of skills that prepare them for employment. A third set of students are attending remedial courses which may range from English as a second language to math and other courses. These classes do not count towards transfer to a higher institution. Finally, many students attend community service courses.

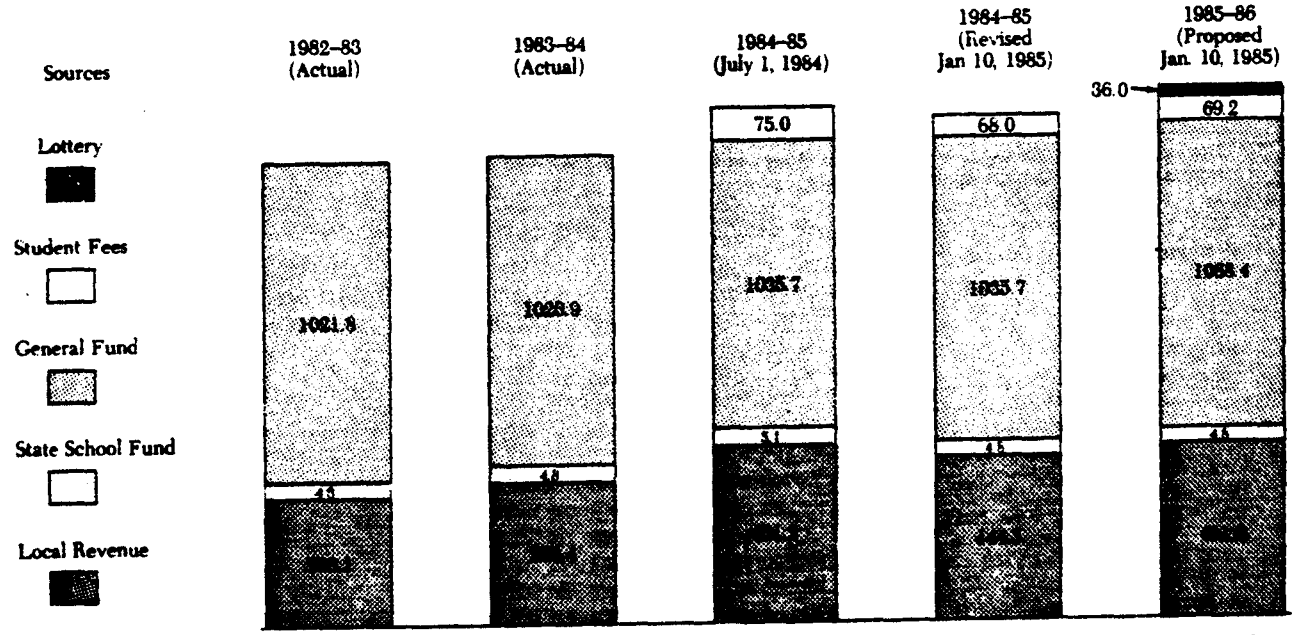
Funding

Simplistically put, the community colleges primarily rely upon three sources of funds: State funds, local property tax, and enrollment fees. The State school fund and the lottery (beginning this year) collectively, add another $40 million. For 1985-86, the CCC system will receive about $1.7 billion in total funds. The table on the following page depicts the various sources and amounts of funds.

The finance laws for community colleges have been rewritten four times since 1978. Nevertheless, the basic State policy has continued to be to ensure districts the same level of funding per Average Daily Attendance (ADA) that they had prior to Proposition 13.

While the annual State budget bill appropriates State monies to the community colleges, the Education Code specifies formulas for determining how much money is needed and how it should be distributed. These formulas: (a) define each district's "base" revenue; (b) provide for "equalization" funds to bring low revenue districts closer to the State average; (c) establish an inflation adjustment formula based on the Government Price Index; and (d) provide for enrollment changes to be funded at an incremental rate that varies with district size.

COMMUNITY COLLEGE APPORTIONMENTS AND ADA
(Dollars in Millions)



	1982-83 (Actual)	1983-84 (Actual)	1984-85 (July 1, 1984)	1984-85 (Revised Jan 10, 1985)	1985-86 (Proposed Jan. 10, 1985)
Totals, All Funds	$1,415.4	$1,425.1	$1,567.0	$1,552.8	$1,690.2
ADA	708,416	664,433	706,416	640,510	652,000
Expenditures per ADA	$1,998	$2,145	$2,212	$2,424	$2,592

Source: 1985-86 Governor's Budget

* Dollars in thousands

SCOPE AND METHODOLOGY

The Commission's study of the Community College System was initiated in August 1985 with a review of existing documentation and analysis followed by numerous discussions with involved parties. On October 2, 1985, the Commission held its first public hearing in Los Angeles on the overall Community College System as an initial step in the evidence gathering process. Based on the information received, testimony presented, and discussions with the staff to the Joint Legislative Committee and the Commission on Review of the Master Plan, a second public hearing was held on November 21, 1985. The scope of the second and final hearing was limited to those four community college districts--Peralta, Los Angeles, Chaffey, and Lassen--that had closed the 1984-85 fiscal year with a financial deficit and had requested an emergency apportionment from the Legislature. The goal of the second hearing was to identify common patterns in the context of State and local responsibilities leading to recommendations that the Governor and the Legislature through both the Joint Legislative Committee and the Commission on Review of the Master Plan will find valuable as part of their larger mandate.

Comments and recommendations presented at the hearing and submitted subsequently to the Commission office were used in many of the recommendations that the Commission is advocating in this report.

CHAPTER 2

WHO IS FINANCIALLY ACCOUNTABLE AND WHO IS IN CHARGE IN THE CALIFORNIA COMMUNITY COLLEGE SYSTEM?

Declining enrollment and bankruptcy are plaguing many of our nation's colleges and universities. Experts predict that from 10 to 30 percent of our 3,100 colleges and universities will close their doors or merge with other colleges by 1995. Unfortunately, California's Community College System, the largest in the United States, is no exception. Although increased funds may ultimately be necessary, managers of any public or private sector organization must always function within the constraints of limited resources. This chapter reviews the fiscal health of California community colleges and evaluates a number of variables this Commission believes have been pivotal to the management and financial accountability of the system, and which have substantially contributed to the overall problems of California's community colleges.

FISCAL HEALTH OF COMMUNITY COLLEGES

FINDING #1: California Community Colleges are facing increasing financial troubles as indicated by the number of emergency apportionments requested from the Legislature. The financial troubles have been caused, in part, by the long-term patterns of deficit spending, the significant decline in ADA, inadequate reserves, and management practices.

Prior to Proposition 13, community college districts possessed the authority and the ability to increase their revenues through changes in the local property tax rate. When rates could not be increased, they were still generally guaranteed an annual increase in revenues simply due to the increased valuation of property. Financial troubles in college districts were quite rare, and it was virtually unheard of for the State to need to "bail out" a district.

However, this condition changed substantially beginning in 1980-81 when it became necessary for the Barstow Community College District to exercise a provision of the Education Code which provides that the Legislature may specifically appropriate funds to make a "loan" to "financially-troubled" community college districts with insufficient funding to meet financial obligations. The Legislature's special apportionment that year of $350,000 to the Barstow District was followed the next two years with special apportionments to the Compton Community College District for $750,000 and $350,000, respectively.

Even though 1983-84 provided a brief hiatus from legislative loans with each of the 70 community college districts able to meet their financial obligations, the weak financial condition of the Community College System was still apparent in some districts. Specifically, Compton continued to show a $747,000 deficit because of the liability generated from the previous years emergency loans while the Peralta Community College District ended the 1983-84 fiscal year with a zero cash balance. Three other Districts (Antelope Valley, Chaffey, and Marin) closed the fiscal year with a contingency reserve of 3 percent or less of their total available income. Still others drew upon contingency reserve accounts to fund basic operating costs.

The slide in fiscal solvency of many districts has continued since 1983-84. Last year, the State Chancellor's Office identified almost 25% of the community college districts as operating under "questionable" financial conditions. Of the 17 districts identified, four community college districts--Peralta, Los Angeles, Lassen, and Chaffey--were not able to meet their financial obligations resulting in a request for a "special apportionment" of $9.8 million. Though approved by the Legislature, this amount was reduced by $5 million after the Governor vetoed that portion of the loan requested for Los Angeles Community College District. Although other districts did not require special apportionments, many spent money on operations which should have been retained for contingencies.

In reviewing three of these four financially-troubled districts (Los Angeles, Peralta, and Chaffey Community College Districts), the Commission has identified certain characteristics which clearly affected their ability to meet financial obligations for the 1984-85 fiscal year.[1] Specifically, the most significant variables adversely affecting the financial status of these three colleges were (1) the long-term patterns of deficit spending over a three- to five-year period; (2) the significant decline in ADA ranging from 17 percent in the last three years for Chaffey, to 27 percent for Peralta; (3) inadequate reserves for contingencies at all three districts; and (4) poor management decisions by district management and trustees.

Deficit Spending by Districts has Increased Substantially

Since its peak in 1981, California's Community College enrollment has declined 18 percent (from 1,431,524 students to 1,173,751 in the fall of 1984). Based on the current mechanism of State funding, this significant decline in enrollment has led to a proportionate decline in revenues.

During the 1983-84 fiscal year, 28 of the 70 community college districts spent funds in excess of their annual income, commonly referred to as "deficit spending." This trend actually increased in 1984-85 when the budgets for 43 of the 70 districts were based on the assumption that they would spend funds in excess of their annual income. Although deficit spending may be possible for a very limited time period, this condition ultimately results in the entire elimination of the contingency reserves (which are not maintained to be used for funding daily operations) available to each district. Such actions

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[1]The Commission found that the circumstances surrounding Lassen Community College District's deficit were unique relating to loss of revenue primarily due to equipment failure at their co-generation plant.

inevitably must lead districts to request an emergency apportionment from the State Legislature, or a loan from its respective county.

For the three of the four financially-troubled community college districts we reviewed, deficit spending was consistently apparent. Specifically, the Chaffey Community College District continued this practice for 3 years prior to the emergency loan request, Peralta Community College District spent more than its income for four out of the last five years while Los Angeles Community College District has practiced "deficit spending" for the last five years.

In private enterprise such management practices will eventually lead to insolvency of the entity. However, with the vast majority of revenue funded with State monies, deficit spending will generally result in the need for additional State dollars. In either case, deficit spending is indicative of management failing to sufficiently plan and make the tough decisions necessary to hold expenditures to the level of income. Examples of this failure to cut spending will be discussed in later sections of this report.

Decline in Average Daily Attendance (ADA) has Reduced Available Revenues

During the 1984-85 fiscal year, the financial needs of the community colleges and the number of "financially troubled districts" would have been greater without the passage of Senate Bill 150, commonly referred to as the stabilization fund. This legislation appropriated an additional $31 million for allocation to districts which were in need of revenue adjustments due to declining ADA. Although this legislation softened the financial crisis affecting a number of districts during the 1984-85 fiscal year, the Peralta, Chaffey, and Los Angeles Community College Districts each still needed a loan from either the State or county due, in part, to a steady decline in ADA.

Though the legislation may have partially eliminated the short-term need for additional emergency loans in 1984-85, there is no indication that the community college system will be better able to meet their financial obligations in 1985-86. In fact, for Peralta Community College District, the 1985-86 district budget, including the $2 million loan from the State, is projected to be in deficit by approximately $1.17 million. In addition, the District Chancellor projects that if no corrective action is taken to resolve the financial problems, the district will close the 1986-87 year with a $5.3 million deficit with the deficit projected to grow to $11.8 million by the end of 1988-89. A plan to resolve the District's financial difficulties has been submitted by the local Chancellor to the District Board of Trustees.

However, even if the plan is fully implemented, resolution of the District's financial problems are unlikely. In a January 1986 report regarding the financial condition of the Peralta Community College District, the State Auditor General indicated that "even if the District Board approves the financial plan submitted by the District Chancellor, and receives the $2 million loan from the State, our analysis and projections indicate that the District will not achieve its goal of a $1.4 million surplus by the end of 1988-89. Rather, our projections indicate that the District will have a negative cash balance of approximately $1 million at the end of the 1985-86 fiscal year and will continue to experience deficits through 1988-89."

For the Los Angeles Community College District, the Board of Trustees recently was forced to vote a two-week unpaid furlough for administrators and classified employees due to deficits. Additionally, the trustees voted to negotiate an unpaid spring break for teachers because the district projects a $2.46 million deficit for 1986. Nevertheless, these actions may not be tough enough to resolve the current financial dilemma and were not taken until the overall problem reached crisis proportions, rather than addressing it five years before when deficit spending began and reserves were dwindling.

Under the current ADA funding formula, the revenue available to each district will continue to decline unless enrollments increase substantially. District management must either take all steps available to increase revenue or reduce overhead costs through reduced spending. (The subject of ADA is discussed further on page 22.

Districts Have Not Maintained Adequate Reserves

During last year's evaluation of financially "questionable" community college districts, the State Chancellor's Office established an informal requirement that districts should maintain a minimum reserve for contingencies of 5 percent of prior years expenditures. Although this was set without detailed analysis, it appears to be a reasonable, common-sense level for unexpected emergencies.

However, in reviewing college district budgets for the 1984-85 fiscal year, we found that 38 of the 70 community college districts had contingency reserves of less than 5 percent including 8 districts without any contingency reserve at all. For the four financially-troubled community college districts which completed the year with a deficit, the budgeted contingency reserves were as follows: $16,734, or less than 1/2 of 1 percent for Chaffey; $200,000 or less than 1/10 of 1 percent for Los Angeles, and $579,702 or 1 percent for Peralta. Given these totally inadequate reserves, it is not surprising that these districts were forced to request special appropriations and loans. Such reserves fail to allow for unplanned expenses such as run-off elections or increased insurance costs. Moreover, they provide no available funding for unforeseen emergencies such as equipment repairs or other facility problems.

Management Practices

In reviewing the financially-troubled community colleges, it is clear that no single factor caused today's financial dilemma affecting the system. Reductions in enrollment due to a strengthened economy, possible effects of student fees, and other factors have each impacted on State funding under the ADA formulas. Each of these factors have contributed to the poor financial condition affecting many of the community college districts. However, although a district cannot control whether State funding formulas change, the local trustees and their staff do control management practices, and therefore, they control the decision making necessary to ensure that expenditures do not exceed revenues.

Our Commission believes that several areas of management require substantial improvement including planning, budgeting, and accounting control. Moreover, we believe that management in at least two of the four financially troubled districts could have and should have acted to further reduce expenditures and be prepared for contingencies. For example, as previously discussed, the Los Angeles Community College District has completed each of the last five years with expenditures in excess of revenues. Finally, the district was forced to borrow $5 million from Los Angeles County because it could no longer cover its expenditures with monies retained in contingency funds. During the same period of time, the district expended funds for purposes that, in the view of our Commission, seem imprudent and inappropriate in light of its financial condition.

Specifically, during its period of deficit spending, the district approved the expenditure of $25,000 to redecorate the office of its lobbyist in Sacramento including the purchase of an antique armoire. This expenditure would not be as offensive if it were not for the fact that the lobbyist is not even a full-time employee of the district, but rather is an independent contractor who has contracts with at least five other clients. In 1985, the district also chose to spend $10,000 for a "retreat" and training seminar for the district's administrators.

Expenditures in excess of revenues and dwindling reserves apparently have also not prevented districts from agreeing to cost of living increases for faculty and continued benefits for other employees. For instance, management and trustees of the Peralta District agreed to three years of salary increases although it was unclear how they would be funded. The district also paid $37,000 in cash for "accrued vacation" to a demoted college president. It is unclear how such a large amount of vacation could be accrued.

In the Los Angeles Community College District, the Board of Trustees negotiated a 6 percent cost of living increase for faculty although the district's business manager advised the Board that funds might not be available. Additionally, the district has continued to provide bus passes and parking spaces for district office employees at a cost in excess of $320,000 a year. Although this may be a justifiable expenditure at a time when a district has adequate reserves, it does not seem to be an appropriate expenditure for a district with revenues which are inadequate to cover expenditures.

In each of these instances, the management of the district did not make the hard management decisions that lead to a balanced spending plan. In reviewing the problems, it is clear that the current governance structure and lack of accountability has resulted in confusion and the opportunity for poor management decisions, such as continued deficit spending. These decisions negatively impact the financial condition of many districts within the State, and may possibly bankrupt at least one district within the system.

FINDING #2: The current shared governance structure causes confusion resulting in lack of accountability at all levels.

As previously discussed, the Board of Governors consists of 15 members appointed by the Governor, with 13 members serving a four-year term, one faculty member serving a two-year term, and one student member serving for one year. The Board's primary responsibilities are policy oriented and include approving all State-funded programs and courses as well as establishing minimum academic standards, employment standards and standards for teaching and administrative credentials.

However, the Board of Governors and its operational arm, the State Chancellor's Office have inadequate authority to insure that the 70 community college districts live within the constraints of available funding, or to establish spending priorities. As stated by the system's Chancellor, ". . . we have an emasculated Board of Governors endowed by the Legislature with awesome responsibilities and puny authority."

Operating at times in concert and at times in conflict with the State Board of Governors and the State Chancellor's Office, the 70 community college districts are governed by an elected local board of trustees. The primary responsibilities of the local Board of Trustees are operational in nature including the review and approval of all district instructional programs, services, and budgets. Similar to the State Board of Governors, the local governing boards are responsible for appointing the chancellor or chief administrative officer of the district.

Confusion in Governance Structure

The roles of the local governing boards and the State Board of Governors often overlap each other causing confusion. As the State Chancellor indicated in his testimony before our Commission, ". . . there exists a tension in the law. . ." regarding the proper role of the Board of Governors and the local community college districts. For example, one section of the Education Code (Section 66200) states that the Board of Governors of the California Community Colleges shall prescribe minimum standards for the formation and operation of public community colleges, and exercise supervision over public community colleges. However, another section of the Education Code (Section 71023) states that the work of the Board shall at all times be directed to maintaining and continuing to the maximum degree permissible, local autonomy and control in the administration of community colleges. Therefore, the Board of Governors has the impossible task of supervising the 70 community college districts while maintaining local rather than State control.

To further confuse the governance structure, increased State financial participation has resulted in an increased interest in the accountability and governance of the Community College System while the local Boards have indicated that they should retain the operational authority. This conflict was illustrated by the Chancellor of the Los Angeles Community College District during our Commission's October 2, 1985 hearing when he stated that ". . . the State agency is a coordinating agency trying to become an operating agency. The local agency, under the direction of the Board of Trustees is an operating agency. So the accountability for the operations of a local college or a local college district, is the responsibility and authority of the local board. The problem is that we are getting more direction from the State."

However, given the increased State financial participation, and the increased State financial responsibility for districts such as Peralta, Chaffey, and Lassen that cannot meet their obligations, the need for additional State authority and accountability has evolved.[2] The Governor, the Legislature and the taxpayers must know what they are purchasing for the hundreds of millions of dollars spent.

INADEQUATE STATE GOVERNANCE

With the shift in funding from predominately local to primarily State money, the need for a greater State influence in the operations of the 70 community college districts is apparent. The Legislature must have adequate information and the administration must have adequate authority to ensure that the community college system is operating efficiently and effectively.

FINDING #3 -- The Board of Governors and State Chancellor's Office have inadequate information by which to govern.

The need for adequate information regarding the Community College System has increased proportionately with the increased State financial participation and responsibility that has evolved since the passage of Proposition 13. Adequate data is the only means for the State Board of Governors, the Legislature, and the Administration to effectively evaluate the performance and overall cost of the Community College System.

Currently, the State Chancellor's Office collects a wide variety of information regarding the 106 community college campuses. However, as the State Vice Chancellor presented in his testimony to our Commission at the October 2 hearing:

> ". . . most data provided by districts is voluntary with no direct reimbursement for this effort. In the past, even those requests for information have been viewed by the districts as an encroachment on local control. Since Proposition 13, districts have been asked to provide more and more data to the State while at the same time their ability to respond has been reduced by reductions in funding."

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[2]The Los Angeles Community College District received its loan from the County.

The Analytical Studies Unit (ASU) within the State Chancellor's Office collects data primarily through the Uniform Statewide Reporting System, the principal source of information regarding the Community College System. In addition, at least five other operating units in the Chancellor's Office also independently request information from the colleges in a variety of formats from submittal of annual reports, updates, applications, and plans, to ad hoc surveys.

However, as discussed in a September 1985 report prepared by the Educational Evaluation Associates, ". . . the data files within the Community College System are not adequately linked with one another." Specifically, the report noted that some of the information is stored at the Teale Data Center while some data are available only on various microcomputer systems within the State Chancellor's Office that cannot be merged with data files at Teale. In addition, even the data stored at Teale are not always compatible.

The problems associated with the information system became more apparent during the development of the "Plan for Implementing a Differential Cost Funding System for the California Community Colleges," prepared by the Chancellor's Office. Specifically, the Office stated that ". . . integrating the data proved to be a difficult task. . . the project staff found a number of inconsistencies within the different reports which were difficult to reconcile." In reviewing the documentation, the Chancellor's Office identified the following factors which ". . . appear to contribute to inconsistencies among the reports."

1. Multiple Reporting Channels. Data are currently collected through five major reports. The reports are required by different offices within the Chancellor's Office and filled out by different offices within the districts. The result is that similar data elements are not reported consistently.

2. Multiple Reporting Times. Reports are required at different times during the year resulting in different "snapshots" of the districts. Partially because of this, integrating the current files does not produce reliable data.

3. Uneven Reporting. Examination of institutional reports revealed that similar data elements were reported differently for the same report.

4. Varying Levels of Disaggregation. Information is not always reported at the requested level of detail. For example, some colleges assign instructional support costs to discipline areas but others, primarily small districts, aggregate these costs into a single "instructional cost" category.

5. Definitional Precision. There appears to be a significant amount of local interpretation of definitions used in the reports. Local staff responsible for reporting data found that they had to make numerous interpretations in order to assign information to categories. This variation reduces the confidence an analyst has in the uniformity of data at the State level.

6. <u>Multiple Data Systems.</u> Many districts have more than one data system serving their administrative needs. Technical differences among the various types of hardware and software make it difficult to combine files for analysis.

7. <u>Special Reporting Problems.</u> There is a general lack of consistency in reporting data amount, summer sessions, contract courses, non-instructional salaries, non-credit instruction, costs associated with departmental chairpersons, and capital outlay. For example, some institutions split summer session costs between two fiscal years and some do not. Some districts report contract classes on the Course Activity Measures Report and some do not.

Without the ability to integrate the information submitted to the State Chancellor's Office, basic questions such as the number of students enrolled in a specific program and the program cost per student cannot be answered. In addition, without consistent reporting, historical analysis to determine fluctuations in program costs cannot be developed making it impossible to adequately justify an appropriate funding level for the Community College System.

Last year, in an effort to address this problem, the Legislature enacted an urgency measure (Chapter 1458, Statutes of 1985) to provide $360,000 to develop ". . . readily usable data for evaluation of activities, outputs, and finances of the California Community College System." The funding will be used to integrate seven years of historical data and design a new information system including the definitions of data elements, a comprehensive taxonomy, and determination of file integration requirements to eliminate duplication in reporting. However, the actual design, development and implementation of this system is expected to cost approximately $2 million with staffing needs to more than triple over the next five years. Unfortunately, given the five-year implementation period, the uncertainty of future staffing levels and funding, and the unwillingness of districts to submit accurate, comparable data to the State Chancellor, it is clear that the information will not be adequate for the Legislature and the Administration to answer the question "What is the State buying?", and "How much is it costing?" within the near future.

FINDING #4: <u>The Board of Governors and the State Chancellor's Office do not have adequate authority to provide direction to districts and take action against poorly managed districts.</u>

Even though more than 60 percent of the funding available to the Community College System is provided by the State, the operational authority of the Board of Governors and the State Chancellor's Office is primarily advisory. Under existing statute and with current agency resources, the Board of Governors <u>cannot</u> exercise any of the following important authorities:

- establish uniform spending limitations,
- establish contingency reserves,
- provide cash loans directly to the districts,
- secure a loan which the district may obtain elsewhere,

- withhold State funding, or
- unilaterally conduct an audit on the district's management practices.

However, the responsibility of the State Chancellor's Office, as provided in statute, poses a conflict and is difficult to enforce given its limited authority to take action against mismanagement or noncompliance with State law.

Authority to Provide Direction to the Community College Districts

The State Chancellor's authority to provide direction and set limits for the financial management of a district is limited at best. Even though the State is financially responsible, the State's role in financially troubled districts is reactive rather than proactive. As stated by the State's Executive Vice Chancellor, ". . . The role of the Board of Governors in addressing a local fiscal crisis is extremely limited and perhaps can be best exemplified in what the Board of Governors and the State Chancellor's Office cannot do." (emphasis added)

However, without appropriate State imposed guidelines, the Community College System, which is funded primarily with State monies, can be subject to poor decision making by districts with various types of negative effects on the education of the students. For example, the Los Angeles Community College District has had a 100 percent increase in administrative costs over the last 10 years while the overall budget during the same period increased only 45 percent. Therefore, a greater proportion of available dollars are currently used for administration and a reduced percentage available for instruction in comparison to past years. Although this is a significant policy decision affecting the use of State funding, any guideline developed by the Board of Governors and the State Chancellor to limit the percentage of a district's budget dedicated to Administration, can be totally ignored by a local district.

The State Chancellor needs expanded authority in many other areas as well to provide direction to and oversight of our community college districts. Although the Chancellor has, in the past, suggested requirements for appropriate contingency reserve levels, he does not have the authority to officially set such limits. As previously discussed, a substantial number of districts currently have inadequate budget reserves to respond to emergencies or unplanned expenditures.

Finally, the Board of Governors and State Chancellor's Office have inadequate authority to effectively monitor the financial condition of districts in a timely manner. The current financial oversight role of the Board and State Chancellor is primarily limited to reviewing the financial audit reports prepared at the close of the fiscal year by independent accounting firms under contract with the district. In cases where a district has applied to the State for an emergency loan, they also have the ability to request the preparation of a management review approved by the County Superintendent of Instruction. However, its authority, as well as resources, limit it to merely reviewing the report and any plan that is adopted by the district governing board for resolving financial problems.

Such limited authority is virtually meaningless for the following reasons. First, the Chancellor's Office does not receive the audit reports until several months after the close of the fiscal year. Any analysis and review is not timely enough to impact any funding or resource decisions made by the Legislature. Second, although the Chancellor may require a management report and a plan for correcting problems in a district which has requested an emergency loan, the Chancellor and State Board do not independently conduct the work themselves and have little ability to determine its scope or adequacy. More important, however, is the fact that the State Chancellor has no authority to intervene in the management of a district that has demonstrated an inability to manage itself.

State Intervention and Enforcement

When the State Chancellor's Office identifies poor management practices or non-compliance with State law, enforcement is difficult without the authority to withhold State funding, to hold districts accountable for maintaining balanced budgets, or to intervene in the administration of an individual district when there is substantial evidence that the district has failed to manage its fiscal affairs properly and runs a significant risk of not being able to meet its financial obligations.

For example, the Lassen Community College District Board of Trustees committed the District to the construction of a co-generation plant. However, this agreement to build the plant was financially backed by the District's general fund leading to arbitration, litigation, severe cash flow, and deficit problems. As the interim superintendent of Lassen Community College District stated, "There are some poor administrators around. They make propositions, they enter into business arrangements that they are not qualified to enter into, and as a result, we have a garbage burner, a waste-to-energy facility that, if you ran it for one year, it would lose a net of $800,000 a year."

Although it is clear that the poor management decisions have impacted the solvency of Lassen Community College District, the State Chancellor's Office currently does not have the authority to assume the interim management responsibility of the District. Thus, the only involvement the State Chancellor's Office has with financially troubled districts is to recommend whether the State should release the bail-out funds or not. Without the authority to assume the responsibilities of the administration for an interim period, the education quality, reputation, and credibility of the Community College System may be severely damaged.

This is further illustrated in that the State Chancellor's Office and Board of Governor's responsibility to implement Section 84362 of the Education Code, commonly known as the 50% law. Without debating the merits of this law, it requires that each community college district expend 50% of the "current expense of education" (CEE) for "salaries of classroom teachers."[3] District compliance with provisions of this law is determined by the State Chancellor based on information submitted by the districts after the end of each fiscal year. However, districts which fail to meet the 50% requirement may apply to the Board of Governors for exemption if application of the law would result in a "serious hardship" to the district. Unless an exemption is granted, the district is ordered to add the amount of this deficit to the "normal amount" to be expended for salaries of classroom instructors in the next fiscal year following the year of the deficiency.

For the 1983-84 fiscal year, nine community college districts were deficient in meeting the 50% law. Of those, three did not file an exemption. The law therefore requires that the amount of the deficit from the 50% be added to the "normal amount" to be expended in the following fiscal year. Unfortunately, without sufficient authority to enforce or withhold funds, it is difficult to insure adherence to the law.

Currently, the United Professors of Marin have filed a lawsuit against the Board of Governors of the California Community Colleges and the Chancellor of the California Community Colleges, in addition to other involved parties, regarding the 50% law. The lawsuit states that "the policies and practices of the State allow community college districts to incur deficiencies meeting the 50% law for several years and then subsequently apply for an exemption from the statute which carries over deficiencies from prior years. As an example, the Marin Community College District failed to expend 50% of the CEE on salaries of classroom teachers in the 1975-76 and 1977-78 fiscal years. The District did not seek an exemption from the law for the 1975-76 deficiency and was ordered to pay this amount during the 1977-78 fiscal year. But during the 1977-78 fiscal year, the district incurred an additional deficiency. In the 1977-78 fiscal year, the district again had a deficiency and applied for an exemption from the law, but withdrew its application because it had not held a public hearing, as was required by Section 94362 of the Education Code. The district was ordered to pay this new deficiency during the 1979-80 fiscal year, but during that fiscal year, the district once again failed to expend 50% of the CEE for instructors salaries and incurred an additional deficiency. In September 1980, the district filed with the State a request for exemption from the law carrying over the deficiencies during the 1977-78 and 1975-76 fiscal year. The Chancellor recommended that this exemption application be granted and the Board of Governors granted the retroactive carryover deficiency." The lawsuit further states that "since the Chancellor's Office has been enforcing the Education Code,

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[3]Some argue that this law needs to be amended to change certain definitions, and/or to adjust the actual percentage to more accurately reflect "direct education expenditures." For example, some feel that librarians, counselors, and other such individuals should be included with "classroom teachers" for calculation of this minimum requirement.

Section 84362 (also referred to as the "50% law"), it has routinely granted the carryover deficiency exemptions."

Since 1977, the amount of such deficiencies which have been exempted exceeds $4 million. Specifically, the lawsuit charges that "the policy and practice of the State to permit retroactive carryover deficiency exemptions is arbitrary, capricious, unreasonable, lacking in legislative authorization, unlawful, procedurally unfair, contrary to established policy, and not in compliance with the procedure required by Education Code Section 84362."

However, given the limited authority available to the State Chancellor's Office and without debating the merits of the 50% law, enforcement of this law or any other State statute is very difficult. The Board of Governors does not have sufficient power to fulfill the statutory responsibility of supervising the 70 community college districts nor does it have sufficient authority to insure that the Community College System is in compliance with legislative intent. Without providing the State Chancellor's Office with sufficient authority to fulfill its obligation, questions such as "Who's in charge?" and "Who's accountable?" cannot be answered.

INADEQUATE ACCOUNTABILITY BY LOCAL BOARDS OF TRUSTEES

Prior to Proposition 13, local boards were directly accountable to their constituency -- the local taxpayer. If inefficient operational decisions were made resulting in the need for increased revenues through a property tax increase, the possibility for re-election could be jeopardized. However, with the shift in funding from local to State government, poor decisions do not have the same direct impact on the local electorate. Instead, decisions made by local boards that negatively impact the financial position of the community college districts now may result in increased State assistance.

FINDING #5: Accountability of locally elected trustees to the public has declined since the enactment of Proposition 13.

Prior to Proposition 13, local property tax and other miscellaneous local revenue comprised 52 percent of the total funds available for community colleges. During that period of time, it was expected that each local district would respond to changes in policy in what it considered to be the best interest of the local constituency. Spending limitations and accountability was of great concern to the local taxpayers since an unfunded financial obligation could ultimately result in a local property tax increase. However, since Proposition 13 imposed a constitutional limitation on property taxes, the financial impact of and responsibility for cost overruns and poor management practices ultimately rests with the State.

These changes in funding and their related effects on accountability are exacerbated by the extremely small percentage of the electorate which vote in the elections of local trustees. Specifically, local trustees are usually elected by a small percentage of registered voters. For example, the June 1985 run-off election for Los Angeles Community College District, costing the District $5 million, resulted in only 6.4 percent of the registered voters casting ballots for one of the two runoff candidates. For the Chaffey Board of Trustees, the November 1985 election attracted only 11 percent of the registered voters. Our Commission believes that without a direct link to the general population for fiscal accountability, the local control through the election process is not apparent. And without this control, local boards of trustees may not be as motivated to make difficult financial decisions, such as salary reductions and staffing cutbacks.

This lack of fiscal control and accountability at the local level was recently displayed when the Los Angeles Community College District Board of Trustees in the fall of 1984 agreed to three years of salary increases even though budget officials indicated that a salary increase of this size would not be possible assuming the existing budget, and therefore, would ultimately result in a reduction in other program areas. This decision ultimately contributed to the district's deficit and the need for a loan. Prior to Proposition 13, this might have led to a proposal for an increase in the district's property tax rate.

In summary, the district boards retain the authority to make budgeting decisions while the State is fiscally responsible. This dichotomy results in the lack of fiscal accountability which in recent years has permitted deficit spending and inadequate contingency reserves, as previously discussed.

FINDING #6: <u>The ability of locally elected, part-time trustees to critically evaluate programs and key decisions is constrained due to dependency on the District Chancellor and staff.</u>

The local Boards of Trustees operate in a manner similar to the Board of Directors of a private corporation. Most trustees have other full-time employment and obligations elsewhere. Although these individuals are generally very dedicated to the job and respectful of the responsibilities, it is just not possible to contribute their full time to the activities of the community college district.

Consequently, the local boards of trustees are highly dependent on the analysis and recommendations of the Chancellor and his or her staff. However, unlike the governing boards of the other two major components of California's system of higher education--CSU and the UC systems, the local boards do <u>not</u> have any staff or resources under their direct control to enable them to independently review and audit the district activities. Specifically, the CSU Board of Trustees employ an internal audit staff reporting directly to them. The UC Regents contract directly with a certified public accounting firm to provide independent reviews under its direction. But no community college board of trustees we could identify have any independent staff reporting directly to them to provide objective support and advise regarding operations of the District.

The need for independent "support" is demonstrated in reviewing the large number and complexity of items on a "typical" board agenda.

During our review, we surveyed five large multi-campus districts and three small single-campus districts and found that the average number of items per month on a board agenda(s) for a multi-campus district over a six-month period exceeded 55 and the average number of pages per agenda exceeded 27 pages. For the smaller, single-campus districts, the number of pages per agenda was approximately 55 and the average number of items per agenda exceeded 34. In all cases, the board of trustees were additionally presented a vast number of reports and background documents regarding the agenda items.

The December 11, 1985 agenda of the Los Angeles Community College District, for example, contained 52 pages and involved items such as budget adjustments, actions for balancing the 1985-86 budget including a two-week furlough for administrators and classified employees, the issuance of 1985 Tax and Revenue Anticipation Notes, and personnel actions. For Peralta Community College District, the November 27, 1985 agenda, which we were told is representative of a "typical" agenda, contained such items as authorization to apply for program-specific funds, consideration of the data processing contract, and the district's fiscal plan and proposed faculty reductions.

In a written statement presented to this Commission on November 22, 1985, a member of the Board of Trustees for the Peralta Community College District stated that ". . . the basic question is whether or not trustees can really act to critically evaluate programs and personnel when almost all information they receive is filtered through the Chancellor and his staff. There is little real information given (to) our board." With regard to the quality of information submitted to the Board of Trustees, the Board member continued, ". . . often there are great discrepancies between two different documents given (to) the Board of Trustees. For example, one budget statement indicated that Feather River College made a small ($50,000) contribution to the overall budget of the system. Another document indicated that (the) Feather River (College) was a $1,500,000 drain on the Peralta budget. Such poor data makes it very difficult for trustees to make any critical judgements; instead they rather blindly follow the recommendations of the Chancellor and staff."

Our review indicated that the concern of this local board member was not an exception. Others also indicated that independence and the ability to objectively evaluate information was a basic problem given the importance of the actions taken and the current fiscal condition of many districts. We believe that the ramifications of key decisions made by the trustees must be fully understood prior to their approval. Without this understanding, the efficient management, and ultimately the solvency of a district, may be jeopardized.

QUESTIONABLE SYSTEM FOR DEVELOPING ADMINISTRATIVE AND MANAGEMENT EXPERTISE

Persons employed as administrators in the California Community College System are required by State law to hold either the Chief Administrative Officer credential or a Supervisor credential. To qualify for either of these credentials, an individual must have "two years experience in higher education." Consequently, qualified administrators without teaching experience are generally not eligible to compete for administrator positions within the California Community College System. On the State level, the Chancellor's Office, is generally required to fill vacant positions similar to all other State agencies with existing civil service employees. In contrast, the California State University and University of California System are able to emphasize educational needs with their own separate civil service systems.

Both the credentialing requirement for administrators at the 106 community college campuses located throughout the 70 district offices, and the civil service process required for the State Chancellor's Office may severely limit the number of eligible applicants with related experience for available administrative positions.

FINDING #7: The existing credential requirements for college administrators severely limit the number of professional administrators within the community college system.

Section 87274 of the Education Code requires that administrators employed by one of the 70 California Community College Districts must have either a Chief Administrative Officer credential or a Supervisor credential. To qualify for the Chief Administrative Officer credential, the applicant must hold a Master's Degree or Master's Degree Equivalent; and have two years experience in higher education or be ". . . nationally recognized as a prominent person in higher education. . ." To obtain a Supervisor's Credential, the applicant must have ". . . an Instructor's Credential and two years of relevant experience." Thus, in general, two years as a faculty member at a community college is required.

California is the last state to continue to impose the credential requirements which is an out-growth of K-12 and may no longer be needed. This mechanism significantly limits the selection process making it difficult, if not impossible, to employ a "professional" business manager without the required credential. In some cases, the system may even prevent the recruitment of faculty members from four-year institutions. Our Commission believes that this system has resulted in the appointment of many administrators that have little relevant administrative experience prior to employment. For example, at Peralta Community College District two of the campus presidents were appointed to these positions when previous experience was limited to instruction and serving as a chairperson of a division. In Los Angeles, the Vice Chancellor of Personnel Services was appointed with previous experience limited to instruction and non-salaried union positions. Although these individuals may be qualified, our Commission believes that the lack of administrative and management experience and expertise throughout the system is a weakness in the overall management of the Community College System.

Because college administrators frequently come from non-administrative backgrounds, community college districts must provide on-the-job staff development and in-service training to compensate for inexperience. However, with the financial constraints many districts are facing, many programs are limited. During 1985, the Los Angeles Community College District co-sponsored two workshops for administrative staff development in addition to providing tuition reimbursement for enrollment in courses associated with their current work or promotional opportunities, and providing monies for employees to attend job-related conferences. Preliminary plans for 1986 call for the development of two full training programs for administrators.

Although it can no doubt be argued that inexperienced faculty members can become good administrators, serious questions must be raised about the adequacy of their qualifications. Generally, classroom experience would not have provided the knowledge and training in areas such as personnel, accounting, budgeting, cost-benefit analysis, and management. Although on-the-job training and special seminars can help fill gaps, it cannot replace direct experience in managing multi-million dollar businesses--and that, in reality, is what a college district or campus is.

A relevant analogy, perhaps, is found in the medical community. Hospitals are highly technical and sophisticated operations relying upon staffs of doctors, nurses, and technicians to provide its services. However, the medical community would not consider limiting its pool of potential administrators, personnel officers, etc., to the staff of doctors and nurses. Similarly, our Commission does not believe that higher education should limit its pool of potential administrators to credentialed employees with what is, in many cases, unrelated "higher education" experience.

FINDING #8: The State Chancellor's Office lacks the proper number and type of staff needed to regulate and provide educational leadership to the Community College System

The State Chancellor's Office is a State agency composed of approximately 130 staff members and is organized as illustrated on the following page. Given the vast responsibility of the State Chancellor's Office to regulate the community college district, ensure compliance with statutory provisions, and provide educational leadership, it believes that the State Civil Service System does not provide the proper number and type of staff to perform its varied mandated responsibilities. As indicated in a December 12, 1985 memo submitted to our Commission from the President of the Board of Governors and the State Chancellor, ". . . the limitations imposed by virtue of acting as a State agency make it nearly impossible for (the State Chancellor's Office) to perform the functions required of the educational institute it should be." They continued, "The Chancellor should have the freedom to hire staff he believes are capable of doing the jobs and he must be free to distinguish between the multitude of needs of our many and diverse districts."

While we believe that some of the functions related to compliance and regulatory aspects of the Chancellor's Office are similar to functions performed by other State agencies, we also believe that the responsibility for educational leadership is unique. Given the current system, the California Community College System is not able to make organizational changes and provide educational direction similar to the University of California and the California State University System. Unlike the State Chancellor's Office, both of these systems have their own unique Civil Service System, thereby providing the flexibility for organizational changes while recognizing the need for educational expertise and experience.

STATE FUNDING MECHANISM CONTRIBUTES TO COLLEGE PROBLEMS

Because California's community college system has it roots in the K-12 system, its funding mechanism uses an Average Daily Attendance formula that is designed and structured similarly to the K-12 funding mechanism. However, since the passage of Proposition 13 in 1978 limited local property taxes, the State laws have been rewritten many times in an effort to effectively deal with the evolving needs of the 106 community colleges. Even though the basic State policy to ensure districts the same level of funding per Average Daily Attendance (ADA) that they received prior to Proposition 13 remains unchanged, the State Chancellor's Office argues that this has not been accomplished.

FINDING #9: The existing average daily attendance funding mechanism is inappropriate and ineffective for higher education.

Prior to the passage of Proposition 13, the finance mechanism for the Community College System differed significantly from that of the State's four-year institutions. Because it began as grades 13 and 14 of high school, the community college system was supported through a statutory formula that matched State funds with local property tax revenues, with each local Board of Trustees authorized to levy an additional general purpose tax and several "permissive" taxes on the district. Since the value of property and funding varied among the community college districts, local revenues were not equal. Therefore, the State provided apportionments which were designed to equalize the income per student among the districts by distributing more dollars to the poorer districts.

The key element of this system of financing community colleges was the ability of local taxing authorities to set their own tax rates concurrently with the taxpayers communicating their approval through the ballot box. As a result, the impact of choices made at the local level during that time were felt for the most part by the local taxpayer. Decisions made in one district had little direct impact on other districts since community colleges received about 55 percent of their revenues from local property tax.

Proposition 13, however, limited tax on real property and made the Legislature responsible for distributing these revenues, thereby transforming the local property tax to a State tax. Since local revenue could not be increased any longer, Proposition 13 eliminated the basis for equitably calculating State apportionments. As stated in the California Post Secondary Education Commission's report entitled, Financing Post Secondary Education in California 1985-2000, "This finance system for community colleges contrasts with the State's budget review process and program classification system for the four-year systems which enjoys considerable credibility with the Legislature."

Although the annual State Budget Bill appropriates State monies to the Community College System, the Education Code specifies ADA based formulas for determining how much money is needed and how it should be distributed. According to the State Chancellor's Office, the State budget has failed to appropriate an amount equal to the requirements of the Education Code since 1981-82. The primary reason for the discrepancy is that total statewide revenue for ADA increased 14 percent between 1978 and 1983 while prices rose 72 percent based on the government price index.

Although the issue of whether resources are adequate is usually present with all public agencies, the community colleges--unlike its four-year counterparts--are challenged by the dilemma of reconciling local authority over budgets with the State's necessity to control and monitor appropriations. Since 1983, the Post Secondary Commission has proposed that the ". . . financing mechanisms (for the Community College System) should relate support for college operations to expected costs yet not restrict expenditure patterns by providing differential funding based on a limited number of major support categories that most accurately reflect differences in the cost of community college operations."

Since ADA is a single workload measure, it places undue emphasis on enrollment not recognizing that there are services other than instruction that are essential to the operation of the Community College System. However, the categorical funding structure proposed by the Post Secondary Education Commission would allow districts to make curriculum decisions based upon educational needs rather than the revenue generated from average daily attendance.

Another benefit of the categorical funding is that it would provide a more stable revenue source to allow for long-term planning, budgeting, and development of a district's program offerings to meet the educational needs of the respective committee. In an effort to modify funding mechanisms to fit the needs of the community college districts, many revisions in funding policies and mechanisms have occurred over the years making it difficult to follow, understand, and predict. Planning has been virtually impossible in this environment. For example, the Los Angeles Community College District Chancellor stated that "we don't have our final budget number by the time we actually have to finish the budget." He further stated that, "The long-range plan has very little relevance to what is going to be funded."

Our Commission believes that the mechanism for funding the Community College System should not be based on ADA, but rather on a limited number of workload measures that reflect the services and activities necessary to efficiently and effectively operate a community college district. This mechanism will provide a more stable funding source thus providing a basis for long-term planning which is essential to the System. At the same time, we believe that if ADA is replaced with differential funding, then the State Board of Governors must be provided sufficient authority to ensure that local districts do not expend funds in support of courses that are not consistent with the educational priorities set forth by the State.

CHAPTER 3.

ALLEGATIONS CONCERNING MANAGEMENT PRACTICES AT THE LOS ANGELES COMMUNITY COLLEGE DISTRICT

During the Commission's review of the California Community College System, many allegations regarding the Los Angeles Community College District were submitted to our office or presented in testimony during the public hearings held on October 2, 1985 and November 21, 1985. After reviewing each of the allegations, background documentation, and the response from the Los Angeles Community College District, our Commission categorized the charges into the following eleven areas:

- COMMINGLED FUNDS
- MISSION COLLEGE
- UNALLOCATED FUNDS
- SELECTION OF A LIFE INSURANCE CARRIER
- DISTRICT OFFICE OVERHEAD BUDGET
- DOCUMENTARY FILM ON MEXICO
- DISTRICT SUBSIDIZED RETREAT TO SAN DIEGO
- STUDENT FINANCIAL AID
- CONFLICT OF INTEREST/CONTRACTING PRACTICES
- COMMUNITY SERVICES CLASSES
- COMPUTER LAB

Of these eleven areas which are discussed below, seven have been or are being resolved to the Commission's satisfaction. The remaining four issues have not been fully resolved, and therefore, may require further investigation.

In addition to these eleven areas, numerous other issues, statements, and charges were made which were incomplete and vague making it impossible to thoroughly review or resolve them. These issues included: (1) district purchases made without purchase orders, (2) union representatives influencing the Chancellor's appointment, and (3) a high level administrator receiving a rental fee for conducting a meeting at his home.

A second type of "issue" submitted to the Commission involved actions by the district and campus administration that were clearly within their authority. Examples of these charges include cutbacks in custodial and gardening staff and the elimination of a nursing position at one campus. Although reductions in staff levels are always painful and may even be damaging to a campus given the current financial position of the Los Angeles Community College District, staff reductions were and may continue to be a necessity. There is little or no basis for determining whether these positions should or should not have been part of the district's cost-cutting decisions.

RESOLVED ALLEGATIONS

Commingled Funds

Allegation: A faculty review of the Margaret Tew Christy scholarship fund at Los Angeles City College indicated that the fund balance was not in agreement with the records provided by the campus business manager. Specifically, no interest was credited to the scholarship fund, and the funds were commingled into a joint account making it difficult to trace the interest earned. Individuals allege similar problems with the management and accounting of other funds.

District Response: (excerpt) The Margaret Tew Christy fund is the largest trust scholarship fund maintained in the business office. In 1978, a fund was established for all non-student generated scholarships including the Margaret Tew Christy Scholarship. A bank checking account was opened, and a set of books was established. Since more money accrued in the checking account than was needed for day to day operations, the decision was made by the previous campus president to invest surplus funds into savings and loans with interest to be used for a Dean's Emergency Loan Fund for students waiting for financial aid checks.

With the change in the Chairperson of the Department and renewed interest in the scholarship, and because of the size and complexity of the fund, the college requested a separate fund solely for the Margaret Tew Christy Scholarship. This special fund became effective as of July 1, 1985. However, to resolve discrepancies in prior years, the President of Los Angeles City College has requested a full audit of the fund.

Commission Finding: The Commission thoroughly reviewed the allegation regarding the discrepancies in the scholarship fund and found it to be valid. However, based on information submitted by the district office and the President of Los Angeles City College, a concerted effort is being made to resolve the issue. Assuming that a full audit is conducted to resolve prior years discrepancies and insure compliance with the specific terms of the will, as indicated by the campus president, the issue of commingled funds will have been resolved to the satisfaction of the Commission.

However, the Commission remains concerned with the length of time it has taken to respond to the fund discrepancy. More than one year ago, the department chairman indicated to the campus business manager that this discrepancy existed. Unfortunately, a concerted effort to resolve the problem was not made until this Commission became involved. It is apparent that even though this particular issue will be resolved, a process for correcting fund discrepancies within a timely manner must be developed.

Mission College

Allegation: Educational services for the few students (which ranged from 500 to 2,000 depending on the specific allegation) enrolled at Mission College could be provided at Pierce and Valley Colleges, resulting in significant financial savings. In addition, the staffing at Mission College includes a complete complement of Vice Presidents and Deans even though the enrollment at the College is very low.

District Response: The following chart was submitted by the District in response to the allegation.

COMPARISON OF STUDENT ENROLLMENT AND CERTIFIED ADMINISTRATORS

	Fall 1983		Fall 1984		Fall 1985	
Location	Students	Admin.	Student	Admin.	Student	Admin.
City	19,421	15	15,558	14	13,743	15
East	16,856	14	12,560	14	11,709	13
Harbor	10,234	12	8,247	12	7,763	11
Mission (as corrected)	4,327	8	3,353	8	3,419	5
Pierce	21,224	13	19,286	14	17,393	13
Southwest	6,604	12	4,452	13	3,064	12
Trade-Tech	15,934	22	12,603	23	11,968	22
Valley	21,611	14	17,973	14	16,284	15
West	10,069	13	7,268	13	6,436	12
TOTALS	126,280	123	101,300	125	91,779	118

Commission Finding: Our review and the district response indicated that the Mission College enrollment is significantly higher than the allegation suggests, ranging from 3,353 students in the fall of 1984 to 3,419 students in the fall of 1985. Therefore, the ability of Pierce College and Valley College to absorb the enrolled students on an ongoing basis, as suggested, may not be viable even if it was deemed desirable. In addition, the chart clearly illustrates that enrollment at all of the nine campuses within the district declined from the fall of 1983 to the fall of 1984. However, unlike the other eight campuses within the district, Mission College enrollment actually increased from the fall of 1984 to the fall of 1985. In addition, over the two-year period, the number of administrators decreased from a total of eight to five leaving the following positions:

- President
- Vice President
- Dean of Academic Affairs
- Dean of Student Services
- Assistant Dean of Student Services

Further, our analysis indicates that the number of students per administrator for each of the campuses is as follows:

Location	Ratio of Students to Administrators
City	916.2
East	906.7
Harbor	705.7
Mission	683.8
Pierce	1337.9
Southwest	255.3
Trade Tech	544.0
Valley	1085.6
West	536.0
TOTAL	778.8

Although Mission College's ratio is one of the four lowest ratios, it appears that it contains only the minimum number of administrators needed for a campus of its size. Therefore, we do not concur with the allegation that Mission College administrative staffing includes an excessive number of administrators. However, given the significant declines in the enrollment at Southwest College, the Commission believes that the number of administrative staff members at each college within the district should be fully reviewed.

The concern that educational services for Mission College students could be provided at Valley College and Pierce College remains unresolved, and in actuality is a decision that must balance policy against economies. Any decision to consolidate campuses involves many factors outside of the realm of this evaluation, including quality of education, projected population and enrollment growth, availability of transportation, and projected cost savings.

Unallocated Funds

Allegation: $10 million in funding is left unallocated in the Los Angeles Community College District budget allowing the Chancellor full discretion in its use.

District Response: (excerpt) The following information concerning reserves and special project funds set aside in the 1985-86 Final Budget can be provided:

1. Reserve for Contingency - $1,000,000

Requires five votes from the Board to appropriate.

2. College Emergency Fund - $150,000
To cover unanticipated minor expenses at the college that do not justify use of the Contingency reserve.

3. Classified Position Reserve - $200,000
Funds set aside to cover the filling of critical classified vacancies. Funds are distributed by a committee of college presidents.

4. Continuing Education Projects - $91,000
Represents funds to establish several continuing education projects at the colleges. Many are in cooperation with Los Angeles Unified. Funds are disbursed by a committee of Academic vice presidents.

5. Special Projects - $358,000
These funds represent funds set aside for special projects. They include:

- $80,000 to assist college in mail-in registration
- $100,000 to start up a district-wide foundation
- $38,000 to fund the recommendations of a library study completed in 1984-85
- $40,000 to fund a special program in cooperation with Los Angeles Unified to increase colleges' involvement with their local high schools
- $100,000 to continue support for two instructional development projects. One concerns developing computer-oriented instructional materials and the other, a special English project jointly funded by UCLA.

The total of these reserves and set aside funds is $1,799,000.[4] Of this amount, the Board controls $1 million and $449,000 are committed to specific projects. Only the $150,000 college emergency fund and the $200,000 reserve for classified positions are controlled by the Chancellor.

Commission Finding: The Commission thoroughly reviewed the 1985-86 fiscal year budget for the Los Angeles Community College District. Based on our independent review of the District's budget, we conclude that $10 million in unallocated funding is not available for use at the Chancellor's discretion; rather, the Chancellor has full discretion in the use of only $350,000 for minor expenses and for filling vacancies. Therefore, the charge that $10 million is available at the Chancellor's

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[4] Los Angeles Community College District's inadequate contingency reserve discussed in Chapter 2 referred to the 1984-85 fiscal year. Whereas the total reserves aid set aside funds discussed above refers to the 1985-86 fiscal year.

discretion appears to be unjustified, based on the adopted 1985-86 fiscal year budget.

Selection of a Life Insurance Carrier

Allegation: Life insurance was purchased from Confederation Life in 1982 for $700,000 when the offering through "the TransAmerica Occidential Statewide School Group Program giving similar coverage would (have) cost $350,000, an approximate $350,000 savings."

District's Response: "The District's Staff Relation's Office was approached by a person presenting a group life insurance policy through TransAmerica Occidential Statewide School Group some time during 1982. The proposal was not acceptable because:

1. it did not cover employees beyond age 65. The District's Collective Bargaining Agreement required coverage for all employees including those beyond 65.

2. the Collective Bargaining Agreement then, in effect, required the approval of the union to change carriers. The union was unwilling to provide that approval."

Commission Finding: Discussions with the insurance agent from TransAmerica Occidential Statewide School Group indicated that the proposal did cover employees beyond age 65, but included a 32 percent life benefit reduction at age 65. Whereas the Confederated Life Proposal reduced the life benefit by 50 percent at age 70, leaving it at 100 percent from age 65 to 70.

Although it is clear that the new proposal was not exactly the same, it is questionable whether the "difference" in provisions was worth the expenditure of an additional $350,000. Our review indicated that the district did not obtain additional proposals for the life benefit element for employees over 65. Given the large discrepancy in the two amounts proposed, and to assure that the best coverage was provided at the lowest possible price, prudent management practices should have involved obtaining additional proposals. Moreover, basic competitive bid contracting requirements, calling for a minimum of three proposals should have been used by the district.

District Office Overhead Budget

Allegation: The district office budget for 1985-86, which is greater than five of the nine colleges in the district, exceeds $12.9 million including $921,000 for rent, $300,000+ for employee parking and bus passes, and $100,000+ for the District Chancellor's salary.

In addition, when the District office was moved downtown, the twelfth floor (housing the executive offices) was more costly to furnish than the other six floors combined.

District Response: (excerpts)

Budget: 60.88% ($7,877,230) of the annual district budget is dedicated directly toward college related support services. The remaining 39.12% ($5,062,355) of the annual district budget is considered general administrative expenses. The $5,067,355 represents 2.5% of the District's total budget.

When support service expenses benefitting all locations are separated, the administrative portion exceeds the annual budget of one other location.

Parking/Bus Passes: The present cost to the District for the options are as follows:

Parking:	$274,337.28
Bus Passes:	49,476.00
	$323,813.28

The District currently has contracts providing for parking facilities in two locations. The monthly cost of a space at the Hope Street facility is $96. The monthly cost for parking space at Flower Street is $44.

A bus pass may be provided for the sum of $32 per month. Providing bus passes to employees represents a substantial savings over the cost of providing parking spaces to employees.

Finally, should the District determine to request employee payment of all or part of the parking costs, Education Code Section 72247 limits our ability to charge to a maximum of $40 per school year. The District has proposed implementation of such a fee to the maximum permitted by the Education Code. This item is within the scope of bargaining and must be negotiated with our bargaining units.

Twelfth Floor: The statement that the 12th floor was more costly to furnish than the other six floors combined is unsupported by specifics.

However, the following summary of costs is provided for all contractual improvements over and above the building allowance for floors 8 to 12:

8th Floor	$65,238.	
9th Floor	67,910.	
10th Floor	66,197.	
11th Floor	43,294.	
12th Floor	238,504.	
	$481,143.	
11th Floor Photo Lab.	$15,769.	
Carpet, floors 8-12	113,124.	(upgrade)
	$610,036.	

Items which the District had to pay for included:

- All plumbing (except restrooms provided by landlord)
- Interior glazing
- Extra air conditioning "zones"
- Extra conduiting and electrical requirements

The major difference in cost between the 12th floor and the others is directly attributable to the following:

- Electrical requirements
- Drywall
- Doors, frames, hardware
- Glass and glazing

All of the other floors were designed utilizing an "open office" concept which greatly reduced the need for interior walls, doors, hardware, etc.

Commission Finding: During our review, we found that the portion of the allegation regarding the size of the district budget ($12.9 million) including $921,000 for rent, more than $300,000 for employee parking and bus passes, and in excess of $100,000 for the Chancellor's salary was valid. However, the claim that the district budget exceeds the budgets for five of the nine campuses is only valid if the prorated portion of support service is not allocated to the individual campuses. Once allocated, we found that the district budget exceeds the annual budget of one campus.

In addition, based on our review, the leasehold improvements, including the cost of the twelfth floor, were approved by the Board of Trustees and may have been "reasonable" in relationship to the overall financial condition of the district, at that time. However, during a period of retrenchment and severe cutbacks in instruction, we believe that prior to the expiration of the current lease in 1988, other less costly alternatives should be seriously considered.

We also believe that the parking expense for district employees should be reduced, if not eliminated. While State law does limit the parking fee charged to students and faculty to $40 per year, the intent of the law was to insure that adequate funds are available for the "purchase, construction, operation, and maintenance of the parking facilities," and to insure that the parking fee did not exceed actual cost. However, for the Los Angeles Community College District, the effect of this legislation is that the State is subsidizing the cost of parking rather than using the badly needed funding for instruction. With regard to the Chancellor's salary, given the responsibility for educating in excess of 100,000 students per year, administering a $200 million district budget, and the cost of living in Los Angeles, the Chancellor's salary does not necessarily appear to be "unreasonable."

Documentary on Mexico

Allegation: A successful 45-part, award winning documentary on the History of Mexico costing the District $250,000 is not being used because of contractual and marketing mismanagement.

District Response: The ITV course on the History of Mexico was completed and premiered in the spring of 1978. The enrollments for the first showing and subsequent years are as follows:

Spring 1978	1,256
Spring 1979	341
Spring 1980	344
Spring 1981	472
Spring 1982	213
Spring 1983	163
Spring 1984	156
	2,945

Additionally, $58,460 was realized from leases to colleges outside of the consortium.

In 1983-84, the 46 actors who had roles in the series required an additional total payment of $3,500 to renew their contracts. It was decided at that time that it would not be cost-effective to invest additional budget into the series for the following reasons:

The series is 45 half hours. The newer courses produced by the Southern California Television run for 26-30 half hours which fit into the broadcast time frame of the TV stations including PBS. Also, 26-30 half hours is now acceptable for 3 units of credit. Additionally, the textbook which was written for the course is out of print. It would not be feasible to reprint the text for the existing 45 half hour course.

To summarize:

1. The enrollments in the last two semesters in which the History of Mexico broadcast for credit did not justify the faculty salary required. (The AFT contract required the assignment of one FTE instructor to each ITV course.) Plus the overhead of the ITV operation was high. Therefore, the sound management decision was made to offer more popular courses.

2. The textbook is not available - which is an integral part of the course.

3. The course should be revised to 30 half hours and a revised text prepared to match. This is a project which would require an expenditure equal to the original production costs.

4. The History of Mexico materials are available at each college for on-campus use and have proved to be a valuable resource for on-campus instruction.

5. The ADA and other income over the life of the course was approximately $480,000 which more than covers the cost of production. Commission's Finding: Based on our review and the factual information presented by the District, the allegation that the documentary is remaining unused because of contractual and marketing mismanagement is not justified.

As indicated, the $480,000 in revenue generated from this documentary is in excess of the $250,000 cost. We believe that the district's decision to postpone any revisions to the documentary, given the current fiscal condition of the district, may be prudent since use of the documentary would require significant revisions to accommodate the time available for a three-unit course, and renewal of the contract with the actors would cost an additional $3,500. However, we do not believe the district conducted a thorough cost-benefit analysis prior to deciding to eliminate this course from the curriculum since other ITV courses have continued with enrollments of as low as 90.

District Subsidized Retreat

Allegation: The District subsidized $10,000 of a retreat for administrators. The purpose of the retreat was to teach administrators how to manage personal finances.

District Response: The past five years have brought great changes to the California Community Colleges. The Los Angeles Community College District has experienced a 30% reduction in administrative positions and a nearly equal reduction in support staff to administer the programs at the colleges.

Management decline and retrenchment has made the management team feel less able to influence the direction of their institutions. The skills needed for administrators today are vastly different from those needed during the period of growth and expansion. Management philosophy sees educational leadership as a function of the match between the individual, the institution, and the environment. Administrators in the Los Angeles Community College District have been breaking new ground by taking new and more varied responsibilities. The retreat was an attempt to take a break, identify the challenges facing management, and emerge renovated, energized and with a determined effort to succeed. The retreat's major focus was to develop strategies for productivity, improve intra and inter personal communications skills, and excel in areas of conflict resolution and resource management.

The retreat was co-sponsored by the Los Angeles Community College District Administrators Association. Through the effort of the Association a unique element (never tried in an educational setting before) was added. Spouses were invited to participate in all proceedings. It was felt that the full involvement and understanding by the administrator's family would develop an overall support system enabling the management team to face the forthcoming challenges with a system of support.

The financial report of the in-service program is as follows:

Income	
District staff development funds	$10,000.00
External donations	8,599.00
	$18,599.00
Expenditures	
Hotel costs (A.V./Meals)	$11,900.00
Speaker fees	550.00
Reimbursement to administrators for conference participation ($63.06 each)	6,149.00
	$18,599.00

Approximate total cost per administrator for participating (includes hotel costs, transportation and meals) was $159.95.

Commission Finding: The use of Los Angeles Community College funds to subsidize this expenditure is not illegal. Although the seminars scheduled during the retreat appear relevant and valuable, we believe that it was not a prudent financial management decision in light of the district's precarious fiscal state of health. In times of retrenchment, retreats and other non-essential activities should be eliminated prior to reductions in any educational services.

UNRESOLVED ISSUES

Financial Aid

Allegation: Financial aid is inefficient and ineffective resulting in processing delays, loss of student files, and dissemination of misinformation. The October 8, 1985 issue of the College paper (Read-On) indicates that only 140 persons have actually received financial aid this fall even though the program costs over $1 million per year to administer.

Response: (excerpt) To respond adequately to the above referenced question, it is necessary to review the history of the District's financial aid business. All, however, point to the same conclusion: A myriad of problems engulfed the program almost to the point where it was dismantled on some campuses. Some of these problems included:

- Payments to ineligible students
- Underutilization of funds
- Costly and error prone manual operations
- Differing policies from college to college
- Inability to monitor operations

- Audit exceptions, overawards, noncompliance
- High rate of staff turnover; staff instability
- Weak or non-existent training programs

Because of the problems noted above, the District faced audit exceptions, demands for restitution of funds, high default rates, excessive administrative costs, declining availability of funds, and for some colleges, temporary loss of federal funds. This array of circumstances clearly called for a change. But no change of this magnitude can be made without some problems. Yes, the District has faced some problems since centralization, but they should be weighed against prior years. Just a few years ago, we faced a downward trend. Now, we have turned matters around and more students are receiving their aid and at an earlier period in the school year. Furthermore, the system is accountable and should not face the audit problems that it encountered just a few years ago. This rate of improvement should continue as more staff is added and as the level of sophistication increases. At this point, the future looks brighter. Please refer to the following chart covering 1984-85 and 1985-86.

YEAR-TO-DATE AWARD OFFERS

	As of 11/4/85	As of 11/4/84	% of Improvement (as corrected)	Date in 1984 when same 85-86 level of awards was reached
CITY	689	412	67	12-19-84
EAST	408	108	278	04-10-85
HARBOR	138	69	100	02-27-85
MISSION	38	6	533	02-06-85
PIERCE	213	32	565	02-27-85
SOUTHWEST	210	89	140	01-16-85
TRADE-TECH.	272	12	2,166	02-21-85
VALLEY	160	71	125	01-23-85
WEST	147	19	642	02-06-85
DISTRICT	2,269	818	177	02-06-85

The report provides a statistical and analysis that support the progress made to date.

The financial aid is in a rebuilding phase. The trend has been turned and we are on an upswing. This rebuilding is a process and not an event. With centralization, other changes have been made that will further support the gains made to date. Staff is being added, an automated system is also in place, training sessions are conducted on a regular basis, workshops for students are done regularly and all efforts are being made to stop the spread of misinformation.

Commission Findings: Although it is clear that considerable progress has been made recently, many concerns regarding the financial aid program--which costs approximately $2 million a year to administer, or $400 per award--were presented to our Commission during and subsequent to the public hearings. One student indicated that files have been lost by the district, information has been requested up to five times after it was initially submitted, and misinformation regarding qualifications was provided to students. Therefore, even with the improvements outlined, the program is not functioning with adequate efficiency. We believe that the number of awards to students must be greatly increased and the period of time from initial application to award must be reduced. Currently, the system is making it difficult for students to remain in school rather than providing the support that was intended.

Conflict of Interest/Contracting Practices

Allegation: The design consultant for the Learning Resource Center at Los Angeles Trade Technical College was also the sole source vendor for the library furniture.

District Response: A review of the contract records do not reflect a contract with a design consultant for the LRC project at Los Angeles Trade College. This project was "fast tracked" and I believe that several consultants, including Frank Messano (Educational Design Consultants) were employed by the Architect, H. Wendall Mounce, AIA & Associates. The relationship between Facilities and Messano may also have been established on an M&L proposal form that was not designed for such a purpose but administered through Facilities.

The meaning of "the sole source vendor for library furniture" is unclear inasmuch as any sizeable purchase or contract was processed in compliance with the law and bidding requirements at that time. Just a quick review of the contracts indicate that there were many vendors necessary for equipping the LRC:

a. Carmel Architectural Products for a unit kitchen.
b. Royce Photo/Graphics Supply, Inc. for darkroom equipment.
c. ABC School Equipment, Inc., for chalkboards.
d. American Seating Company for auditorium seating.
e. Central Corporation for an electronic instructional system.
f. Hoffman Electronics for a TV studio system.
g. Bert C. Gentle Co., for stationary library shelving and special library equipment.

Commission Finding: The Community College System is required by law to use competitive bidding procedures. Based on the information which Commission staff reviewed regarding the contracting process, we have no reason to believe the district has violated the law. However, to alleviate concerns regarding the district's contracting practices, a thorough management audit of this area may be desirable.

Community Services Classes Are Not Self Supporting

Allegation: Community Service Classes are not self supporting since they utilize the facilities and equipment of various departments without making any payments for their use. Additionally, these classes negatively impact the enrollment in the regular curriculum by offering similar courses.

District Response: The offering of a Community Services Program is part of each college's mission and is stated in the college catalog. As an integral part of each college's operations, Community Services may be allowed to use equipment and facilities without payment for each and every use.

The policies governing the use of equipment and facilities vary with each college. All of the programs have supply and printing budgets from which they pay for reprographic services on the campuses.

Although the programs are not charged specifically for the use of classrooms, the majority of the programs do provide funds for custodial cleaning and general maintenance of the rooms used. Some of the programs have arrangements with college departments whereby they reimburse the departments for use of supplies and facilities. Some of the programs pay a portion of their college's utility expenses. District administration is currently reviewing a procedure whereby a standard utility charge must be levied on each Community Services Program.

Certainly the colleges contribute much of their equipment and facilities to the Community Services Programs. However, contributions to the college are also made by the Community Services Programs. Prior to the passage of Proposition 13, the Community Services Programs funded many of the colleges' athletics facilities. At West, (Los Angeles College) for example, Community Services paid for the college's tennis courts. Currently, the Community Services Programs fund some of the equipment and services needed in the college's recreational facilities that the colleges would otherwise not be able to afford.

Commission Finding: Our Commission's analysis of the Community Services Program confirms the allegation that the Community Services Program is not self supporting and departmental facilities and equipment are utilized without any direct contribution from the Community Services Program. However, we do not believe the Community Services Program negatively impacts the enrollment in the regular curricula.

In 1982-83, the Los Angeles Community College District Board of Trustees indicated that the Community Services Program should be self supporting. However, to date, the district-wide program has been unable to show a positive balance. For example, in 1984-85, even though income from the Community Services Program exceeded $3 million, the Program closed the year with a $392,000 deficit.

The Commission believes that lack of district-wide spending priorities has significantly affected the profitability of the Community

Service Program. For example, expenditure requests are approved by the Community Services Coordinator without any direct correlation to the use of equipment and facilities provided by a specific department. Therefore, even though there may be an effort to insure that each department receives its "fair share" of the community service revenue, the current "bartering" system tends to bred discontent and mistrust. A district-wide budgeting system with established spending priorities and funding levels could eliminate the potential for deficits in the Community Services Program.

With regard to the Community Services Program competing with the regular educational program, we did not find any evidence to substantiate this allegation, and in fact, we found that the Chairman of each Department is responsible for approval of the Community Service courses affecting his/her Department to insure that the course content and time is not in conflict with the Department curriculum.

Computer Lab

Allegation: The administrator in charge of the computer lab implementation project had no knowledge of computers. Thus, the lab was built with high-price and custom made furniture and components with no attempt to purchase the necessary software within a timely manner. Therefore, computer classes were conducted for 6 of the 19 semester weeks without any software or hardware support. In addition, once the lab was opened, adequate staff was not available to operate the lab.

District Response: The college, through a committee, including all vocational education and business administration staff approved a computer center to be used by all departments. The center was to be funded with VEA funds over a three-year period (83-84; 84-85; and 85-86). The understanding was that participating departments would be given VEA allocations for software to use in the center and that the use of the center would be divided among them based on usage and equipment needs. The business administration department received the largest allocation.

As a result, computer equipment purchases began to be made with 1983-84 dollars, and when the equipment was received it was stored at the college.

The computer lab was converted from a science lab which contained gas, water, and compressed air lines and fixed seats. Lighting had to be modified and cables installed for networking equipment. Renovations required were very extensive including installing air conditioning and the raising of the floor for electrical wiring. The computers installed were IBM personal computers. The table for each station was a standard, inexpensive, plastic-top unit. The chairs were standard swivel chairs. The carpeting was typical commercial grade. No custom-designed equipment or furnishings were ordered.

The computer lab was not ready at the start up of the semester, and the business department was given the use of the micro computers in the computer technology lab as an alternative.

Commission Finding: The Commission found no justification for the allegation that "custom furniture and components were purchased." Additionally, we reviewed the prices of standard office chairs used by the State of California and found that the prices ranged from \$160 to \$300 per chair. Therefore, the price of \$190 per chair is within the range of standard rather than custom furniture.

In addition, we did verify that equipment was purchased and left in boxes unused for a period of time. Although the campus president indicated that this was due to budgeting constraints, we believe that to insure the best use of the limited district funds, the district's equipment purchases should coincide more closely with need.

With regard to the allegation that the administrator in charge of the implementation of the lab had no knowledge of computers, the campus President did indicate that an administrative reorganization was initiated. We believe that in the future, the selection process for "specialty" positions such as this should consider "proven expertise" as a mandatory criteria, if possible.

CONCLUSION

Although our investigation did not uncover significant nonfeasance, the Commission continues to be concerned with the number and the types of charges submitted during our review. It is clear that in any organization of this size, a few of the employees will express discontent. However, we received letters from more than 25 prior and existing employees, anonymous telephone calls from district-related individuals, and opinion surveys from 55 employees indicating that ". . . the Los Angeles Community College District is not being well managed and administered, and I have no confidence in the current district administration's ability to insure the success of the Los Angeles Community College System." At least one campus president indicated his/her dissatisfaction with the continual direction and redirection from the district resulting in confusion and a lack of credibility. For example, the budget for each of the nine campuses and the number of positions were modified periodically by the district. Therefore, the information presented from the District to the campus presidents is constantly changing making it difficult to make decisions or commitments.

It is clear that channels of communications between the District administration, the campus administration, and the faculty must be improved to enhance the credibility of the administration and the morale of the faculty. At best, the nature and frequency of allegations of mismanagement indicate a strained and tense relationship between administrators and faculty, and the need for substantially improved communication.

CHAPTER 4

RECOMMENDATIONS

Financial accountability within the California Community College System continues to be fragmented without any central point of control. With State funding exceeding $1 billion per year, there is insufficient financial accountability and state control to insure prudent and efficient use of the State resources expended in supporting the 70 community college districts and 106 community college campuses throughout the State. Put simply, "no one is accountable, and no one is in control."

To ensure enhanced State involvement and accountability in the financial operations of the Community College System, we believe that the authority of the State Chancellor and Board of Governors must be commensurate with their existing responsibility. To accomplish this endeavor and provide greater financial accountability, the Commission recommends the following:

1. <u>The Legislature should enhance the authority of the Board of Governors and the State Chancellor's Office to insure fiscal accountability.</u> Although the State is financially responsible for at least 66 percent of the Community College System, the State's role in the California Community College System is extremely limited. Therefore, without State imposed guidelines, the State funding in excess of $1 billion annually can be subject to poor decision making by districts negatively affecting the education of the 1.2 million students. The authority of the State Chancellor's Office must be expanded to provide direction to and oversight of our community college districts. We believe that the State Chancellor's Office authority should specifically include the ability to:

   - <u>establish spending levels and priorities for expenditure of funds.</u> Guidelines for spending levels would eliminate the possibility that a disproportionate share of funding could be expended on non-instruction related activities such as administration.

   - <u>provide cash loans from a revolving fund to districts that are unable to meet their financial obligations and/or secure third party loans to districts.</u> This would provide two independent mechanisms for immediate State financial assistance prior to financial insolvency.

   - <u>unilaterally conduct financial and operational audits as needed to insure solvency, prudent management policy and practices, and compliance with State law.</u> Currently, the State Chancellor does not have any authority to investigate the management and financial practices of a district; therefore, analysis by the State Chancellor's Office is based on information submitted by the district without any independent verification. Additionally, without audit capabilities, the State Chancellor's Office has very little information to provide an "early warning" prior to the request for additional funding from the Legislature.

- intervene in the management and administration of an individual district where the district fails to manage its fiscal affairs properly. The Board of Governors should only intervene in rare instances and only for an interim period until financial stability is ensured. Such intervention should be authorized only in instances where insolvency was imminent.

- partially or fully withhold State funding. During conditions of poor management practices, the Chancellor should be able to withhold State funds to insure compliance with State rules, regulations, policies, and/or standards. This authority would only be necessary when State funding or financial stability is jeopardized.

2. The Legislature and the Governor should continue their support in the development and implementation of a management information system within the State Chancellor's Office. Last year, the Legislature enacted an urgency measure to appropriate $360,000 for the development of an MIS system within the State Chancellor's Office. We believe that the cost of full implementation of this badly needed system will approximate $2 million. However, given the $1 billion per annum of State funding appropriated for community colleges, the cost for an adequate information system is justified and should be fully supported. In addition, in an effort to immediately improve the validity of the data, the District Chancellor or Superintendent should be required to sign that, under penalty of perjury, the data currently submitted to the State is accurate. Additionally, the State Chancellor's Office should have the authority and resources necessary to sample test the data to determine its validity and consistency.

3. An "early warning" audit report mechanism under the State Chancellor's authority for pending district insolvency should be established. The benefit of this mechanism would be to permit timely remedial action and avert the need for emergency appropriations.

4. The Legislature should amend Section 87274 of the Education Code and delete the requirement that administrators hold either an Administrative Officer Credential or a Supervisor Credential. This section of the Education Code limits the number of eligible candidates for administrative positions, and the experience required of the community college administrators. Thus, administrators from industry and four year higher-education institutes generally are excluded from the competitive hiring process. Elimination of the credential requirement would "open" management positions to all qualified candidates and therefore result in a "management personnel" system similar to the system used in the California State University System.

5. The Board of Trustees for multi-campus districts should retain an independent auditor or audit staff. A common issue raised during the Commission's review of the Community College System was lack of independent and objective analysis by the Board of Trustees, given the vast number of issues presented and the limited time of what are part-time Board members. Therefore, Board members are required to rely entirely on the information presented by the Chancellor in making decisions regarding salary increases, contracting activities, and retrenchment activities. An independent audit staff providing objective analysis would provide the Board with the information necessary to make more objective decisions.

6. The Legislature should consider the implementation of a categorical funding mechanism. A new funding mechanism should be implemented. The funding mechanism for the California Community College System should relate support for college operations to expected costs, yet not restrict expenditure patterns. It should provide differential funding based on a limited number of major support categories that more accurately reflect the full cost of community college operations. This mechanism would allow districts to make curriculum decisions based upon educational needs rather than the revenue generated from average daily attendance, and would provide a more stable revenue source to allow for long term planning and budgeting.

7. The Department of Personnel Administration, Commission on Review of the Master Plan, and the State Chancellor should together analyze the advisability of the State Chancellor's Office using alternative personnel systems. The analysis should be conducted in the context of the recommendations outlined in the upcoming report by the Commission on the Review of the Master Plan, specifically as it relates to the Chancellor's role in educational leadership. One option would be to integrate the State Chancellor's Office and the 70 Community College Districts into the California State University Personnel System. Any alternative should preserve the fundamental principles of a civil service system.

RECOMMENDATIONS SPECIFIC TO THE LOS ANGELES COMMUNITY COLLEGE DISTRICT

1. Management Review
   Given the number of additional allegations or statements that were submitted to the Commission but were not reviewed because of lack of information or because of our limited resources, and since four of the eleven major allegations remain unresolved, the Commission believes that the Auditor General should conduct a thorough management review of the Los Angeles Community College District including a thorough review of the district's contracting practices and financial aid program.

2. Fund Balance Discrepancies
   The Los Angeles Community College District should develop and implement a process for correcting discrepancies in fund balances within a timely manner.

3. <u>Administrative Staff</u>
   An analysis of the number of administrative staff at each of the nine campuses should be conducted. Currently, the ratio of students to administrators ranges from 255.3 to 1 at Southwest College to 1337.9 to 1 at Pierce College. A more even distribution of administrators may enhànce the Districts effectiveness.

4. <u>Budget and Funding Mechanism for Community Service Program</u>
   A budget and funding mechanism for the Community Service Program should be established and implemented to ensure that Community Services are self supporting and operating within a balanced budget.

5. <u>The Legislature should modify Section 72247 of the Education Code to allow community college districts to charge employees for the full cost of parking.</u> Current law prohibits community college districts from charging students and employees of the district more than $40 per parking space per year. The Los Angeles Community College District is located in the central business district of Los Angeles, and have been paying up to $96 per parking space. This legislative change would permit the district to charge top level management the full parking fee.

Please Reply To:
☐ State Capitol
Sacramento, Ca 95814
(916) 445-3266

☐ District Offices
5405 Stockdale Highway
No. 112
Bakersfield, Ca 93309
(805) 395-2673

☐ 14800-9B Seventh Street
Victorville, Ca 92392
(619) 245-1661

☐ 825 N. China Lake Blvd.
Room B
Ridgecrest, CA 93555
(619) 375-5816

Assembly
California Legislature

PHILLIP D. WYMAN
ASSEMBLYMAN, THIRTY-FOURTH DISTRICT

Committees:
Transportation
Natural Resources
Labor and Employment

Member:
Little Hoover Commission

Joint Legislative Budget
Committee

February 3, 1986

Mr. Nathan Shapell, Chairman
Commission on California State
Government Organization and Economy
1127 - 11th Street, Suite 550
Sacramento, CA 95814

Dear Mr. Shapell:

I do not support the recommendation extending to the State Chancellor's office authority to provide cash loans from a revolving fund to districts that are unable to meet their financial obligations.

We should not eliminate the current process which includes legislative oversight regarding decisions for emergency loans. These are extraordinary allocations from General Fund monies which stem from fiscal problems. These situations should be reviewed by the Legislature and the Governor to ensure that we know the causes of the need for the loans and can avoid similar situations in the future.

Sincerely,

Phil Wyman

PHILLIP D. WYMAN

PDW:slt