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.