Recommendations for Improving Efficiency and Effectiveness in Financial Operations
Peralta Community College District Administrative Program Review

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In August 2021, the Interim Chancellor of the Peralta Community College District (PCCD) reached out to an outside consultant to perform an administrative review of PCCD's finance division. In particular, an evaluative focus on the district and campuses financial aid organizational structure as well as the PCCD's payroll operations is to be done. The results are contained in this report. To provide viable recommendations and meaningful feedback, the information contained in this report is based upon a review of relevant financial documents, organizational charts, collective bargaining agreements, pertinent Board policies and administrative procedures, and interviews with college administrators.

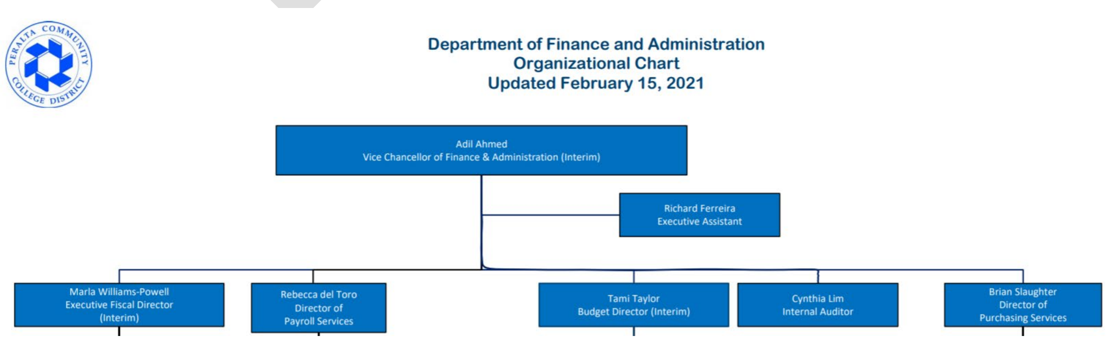
The report offers recommendations with additional supporting strategies to attempt to aid in the operational effectiveness of PCCD. Further, these recommendations should assist in the efforts PCCD is currently undertaking to in regards to the multiple recurring audit findings, internal control issues, and concerns raised by the Fiscal Crisis and Management Assistance Team (FCMAT).

Administrative Organization – Background Information

The current organizational structure within the Finance Division, led by the Vice Chancellor of Finance and Administration, includes five direct reports for the Vice Chancellor (not counting the Executive Assistant), listed below with their respective salary ranges:

- Executive Fiscal Director (Range 4);
- Director of Payroll Services (Range 3);
- Budget Director (Range 3);
- Internal Auditor (Range 2); and
- Director of Purchasing Services (Range 3)

With only four management salary ranges available, the current organizational structure is quite flat and requires the Vice Chancellor of Finance and Administration to have an oversized role in the daily operations on a wide spectrum of issues. It is also understood that the role of the Internal Auditor be replaced with a Controller. Regardless, the flatness of the organizational structure is illustrated below.



The current organizational structure has consistently been saddled with audit findings of both material weaknesses and significant deficiencies, many repeated year-after-year. In interviews with staff, it is believed the current organizational structure has contributed to these audit issues along with an inability to retain an effective workforce. These audit findings are significant in nature and large in scope. In the two most recent audit reports, 10 separate findings were issued and reported to the U.S. Department of Education, four of which were repeat findings from the prior year. Corrective action plans provided by District staff are general, non-specific, repetitive in nature, and have not resulted in resolving problematic issues.

In addition, staff described frustration with inconsistent practices and non-adherence to policies and procedures. Morale and trust at the District Office is low which only enhances the employee retention problem that now exists. Further, trust for the District Office at the campuses is also low. Staff described consistent questioning of financial information from the colleges. There is also general consensus that clear delineation of duties between the District Office and the colleges is complex and challenging, particularly in financial aid.

Cash management is also an area of concern within the division. With significant staff turnover, segregation of duties becomes more difficult particularly in the COVID environment and has led to internal control audit findings. Of particular note with respect to cash and the District's accounting practices, is the year-end cash totals reported within the general fund (unrestricted and restricted subfunds) within the District's annual 311 report; in some years a negative cash balance is reported. Further concern on the balance sheet is the very significant sums associated with accounts receivable (an asset that contributes to the overall fund balance of the District). Table 1 illustrates the past two fiscal years.

June 30 Ending Balances - General Fund		
	FY 2019-20	FY 2020-21
Total Cash	2,230,041	11,692,238
Total Accounts Receivable	51,337,392	58,101,472
Accounts Receivable % of Fund Balance	160%	179%

Table 1

In discussions with staff the process for reconciling accounts receivable on the balance sheet was unclear. It is plausible that significant sums of the accounts receivable are not collectable, particularly considering the cash flow issues that exist; if that is the case the overall financial position of the District is overstated.

A corrective action plan is nearly finalized that will address the numerous audit issues related to financial aid and Title IV funding. A component of that plan included redirecting the oversight of financial aid to the Vice Chancellor of Finance and Administration; previously the reporting relationship existed under the Vice Chancellor of Academic Affairs and Student Services. As of this writing, the recruitment for the Director of Financial Aid is ongoing. Of note, the Director of Financial Aid position is currently advertised as a direct report to the Vice Chancellor of Finance and Administration, a component that is addressed in the forthcoming recommendations section.

Recommendations

Recommendation 1: Reorganize reporting relationships within the District Office finance division. With the particular skill set of the current and interim Executive Fiscal Director, a reshuffling of the reporting relationships is recommended. First, it is recommended that the Director of Payroll Services and a Controller (replacing the Internal Auditor position) report directly to the permanent Executive Fiscal Director when that individual retreats back to that position. This should improve internal controls by removing silos and allowing the Executive Fiscal Director to have an enhanced role in the overall operations of the division. Two examples of a Controller job description that could be used to start the process of formally approving this title can be found here:
https://www.rccd.edu/admin/hrer/jd/Classified%20Management/Controller.pdf

https://www.sjeccd.edu/HumanResources/Documents/Controller.pdf

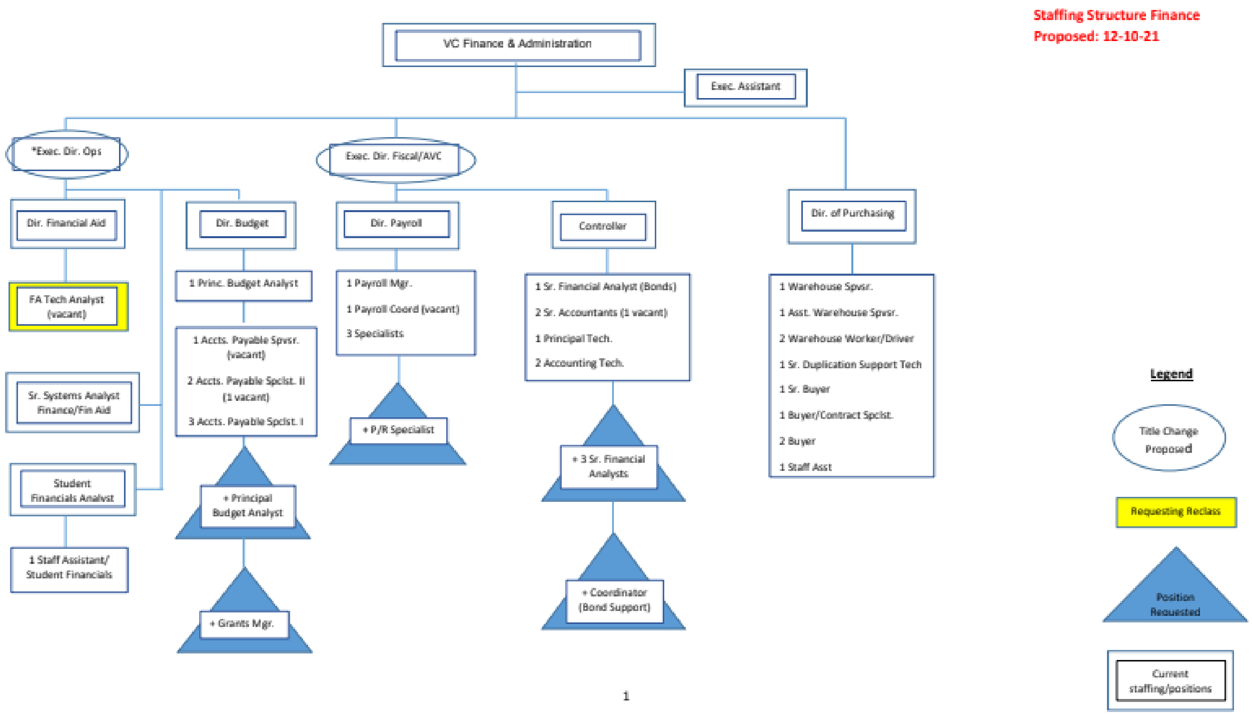
Next, it is recommended that the current and interim Executive Fiscal Director be moved into a new position of Executive Director of Operations, overseeing financial aid, budget and grants. This position would report directly to the Vice Chancellor of Finance and Administration. This new Executive Director of Operations would have the Director of Financial Aid (currently in recruitment) and Director of Budget as a direct report. This level of focus and importance placed on the financial aid functions of the district should allow for more accountability and responsiveness to the very real issues identified by the auditors and Department of Education. Moreover, the current budgeting aspects and controls of the organization have been strongly criticized by staff; a renewed focus on budgeting would be under the purview and guidance of the Executive Director of Operations.

The new position of Executive Director of Operations should have a salary range commensurate with the Executive Fiscal Director and be tasked with overhauling the financial aid functions of the District and addressing audit and internal control issues. Alternatively, as an option, the District may consider contracting the overhaul of the financial aid and budget functions for a period of time until the issues are resolved and a permanent operational framework is put in place; this would eliminate the negative perception of adding another high-level manager at the District Office while still retaining the internal knowledge and expertise of the current workforce. Hiring an independent contractor to do many of the big picture issues creates potential reporting relationship challenges but is a viable option.

Implementing these changes results in a reduction in direct reports for the Vice Chancellor of Finance and Administration from five to three. This should allow the permanent individual in that position (whenever that person is hired) the ability to focus on other district matters, including evaluating the overall functionality of the administrative organization. Reorganizing in such way also empowers the two executive director positions and may necessitate a re-evaluation of the compensation level for the Executive Fiscal Director and Executive Director of Operations, something the current management salary schedule makes challenging.

District staff also strongly support the hiring of additional classified professionals within the administrative services division. Although general support for hiring additional classified professionals exists, it is recommended that this be phased in over time in consideration of budget constraints as well as soliciting feedback from Vice Chancellor of Finance and Administration upon hiring that position.

A proposed organizational chart encapsulating this recommendation is shown below (assumes the Executive Director of Operations is an employee and not an independent contractor). Again, many of these positions will likely need to be phased in over multiple years.



Recommendation 2: Hire a permanent Vice Chancellor of Finance and Administration. Specific to the role of the Vice Chancellor of Finance and Administration, it is imperative that a timeline be developed for the recruitment of the permanent position. This is especially crucial given the ongoing recruitments for a permanent Budget Director and Director of Financial Aid. Ideally, the permanent Vice Chancellor would have a role in selecting these individuals.

This recommendation is easier said than done. PCCD has a poor track record of retaining and recruiting this particular Vice Chancellor position. For instance, the pay is not particularly competitive within the Bay Area ($181,578 to $229,998) and the lift is heavy (very significant audit, morale, cultural, and operational issues to correct). That said, if the District is serious about making these institutional changes it should be willing to pay a premium to do so. Contract incentives related to performance metrics should be considered. Examples of particular performance incentives could include satisfying FCMAT, ACCJC, and/or audit recommendations.

Recommendation 3: Perform an ongoing assessment of financial aid functions and needs. Many of the audit issues relate to financial aid and put the organization as a whole at risk. Title IV funding is the lifeblood of an educational institution and should be handled with extreme care. Access to millions of federal dollars for students depends upon a functioning and ***compliant*** department. Deadlines must be met, reconciliations performed, monies drawn down (and returned) in a timely manner.

It is atypical for a financial aid division to report to the Vice Chancellor of Finance and Administration (an issue that resolves itself should the District adopt Recommendation 1). However, based upon the recent decision to move that function away from Academic Affairs additional time is needed to fully evaluate its effectiveness. In order for this shift in responsibilities to have best chance of success, the Executive Director of Operations (or independent contractor, if the District so chooses) should be empowered and, in fact, directed to do a thorough analysis of operational procedures and internal controls. The in-house expertise to perform such an analysis and make necessary changes currently exists and the District should take full advantage of that luxury. The result of such an analysis should lead to process changes and, above all, eliminating the substantial audit findings within the organization. Additional resources, such as continued contracting with Huron and EdgeRock, should also be employed until the operational framework is firmly established.

Recommendation 4: Hire an outside consultant to review the Accounts Receivable balances on the District's balance sheet and amend District practice of allowing students to register while owing the District money. To say the large accounts receivable amounts on the District's balance sheet is concerning cannot be overstated. An aging report should be done and reconciliations and research should be done to verify what is actually collectible. Oftentimes in a decentralized environment double booking of revenue can occur. An example is an invoice is created in the system that credits revenue and debits accounts receivable. Upon payment of the invoice, strong internal controls must be in place in order to ensure the next step in the accounting process is performed: in this case, credit to accounts receivable (zeroing it out) and debiting cash to recognize we have now received the funds. Unfortunately, in business environments with less than ideal internal controls the paid invoice is credited to revenue ***again*** and debited to cash. This creates a double-booking of revenue and leaves the accounts receivable on the balance sheet.

The consequence of this practice, if occurring on a large scale, would necessitate significant accounting adjustments and large bad debt expenditures. What is specifically concerning in regards to PCCD is that the unintentional practice of double-booking revenue inevitably leads to cash-flow issues, something PCCD certainly seems to be battling based upon its cash balances at year-end. Due to this potential, it is recommended that the District hire an outside consultant to review the non-student accounts receivable balances in order to provide necessary cleanup and to make recommendation on internal control processes to avoid future issues in this area.

Further, much of the outstanding accounts receivable balance is due to uncollected student debt. While accounts receivable balances from outstanding student debt is always present on the balance sheet, the level in which it exists at the District is concerning. In interviews with staff it was relayed that the District does not prohibit students from registering for classes even when the student owes money from previous semesters; in some cases, even international students are allowed to carry large debt balances and continue to register despite the requirement that they have the financial wherewithal to pay the full costs of attendance.

The District should revisit its practice of continually allowing students to enroll without paying the fees from previous semesters. A modification to disallow students from registering while having an outstanding balance on his or her account is recommended. It is quite common to set a threshold in this regard, e.g. only disallow registration should the student owe $100 or more, so as to avoid students being unable to register while only having nominal fees on his or her account.

In addition, in order to minimize the amount of uncollectible debt allowance needing to be booked on an annual basis, the District should aggressively utilize the Chancellor's Office Tax

Offset Program (COTOP). This program, while an administrative difficulty, can greatly improve the student accounts receivable issue. Even if the COTOP is effectively communicated to students with outstanding balances, much of the receivables will be collected prior to COTOP submission so as to avoid the service charges the students would otherwise incur.

Recommendation 5: Shift property, liability, and worker's compensation insurance from ASCIP to SWACC. PCCD currently utilizes the Alliance of Schools for Cooperative Insurance Programs (ASCIP), a predominantly K-12 program. The benefits to joining the Statewide Association for Community Colleges (SWACC) include better rates as well as a focus specifically on the California Community College System.

<u>SWACC vs ASCIP</u>

- SWACC has 57 out of the 73 districts making decisions for colleges in the JPA. ASCIP is mostly comprised of K-12 districts and 10 colleges;
- SWACC has returned over $36 million to its members;
- SWACC provides independent coverage counsel;
- SWACC Claims and Coverage committee reviews all settlements and makes recommendations in order to protect the pool;
- SWACC has extensive procedures for dispute resolution;
- SWACC board members from community colleges control the program – ASCIP board is controlled by K-12 districts; and
- SWACC has an Occurrence Form, including for Sexual and Molestation (SAM) claims. ASCIP changed their coverage on SAM to "claims made". This change is directly tied to the K-12 exposure for SAM claims and increases the cost for community colleges who do not have near the exposure for these claims.

Employment Practice Liability (EPL)

- SWACC: 1/3rd defined contribution from members with SWACC paying the other 2/3rds.
- 100% of uncovered portions of settlement with ASCIP
- ASCIP dictates the amount member will pay as opposed to it being defined in the Memorandum of Coverage; and
- SWACC has an extensive library of training videos on EPL, worker's compensation, and other issues.

In the past three years the savings for colleges joining SWACC from ASCIP has been between 10-25%. On the workers compensation side last year, a large College moved out of ASCIP and into SWACC; that College had a 250,000 self-insured retention with ASCIP. Moving to the SWACC worker's compensation program saved that College $200,000 annually. They eliminated their risk and saved money.

It is recommended that PCCD provide to SWACC (klehman@keenan.com) 10 years of profit and loss history and total insurable value on property and liability insurance. It is also recommended that PCCD provide 10 years of worker's compensation loss data as well as 10 years of payroll history. Doing so will allow SWACC to do an analysis that will likely save the District hundreds of thousands of dollars per year while receiving an increase in service that is tailored to California Community Colleges.

Recommendation 6: Provide immediate relief to senior managers within the Finance Division through the hiring of additional staff and/or consultants and reassigning appropriate work to existing staff. In interviews with senior management within the Finance Division, it is apparent that the heavy workload is all-consuming and requires 70+ hours per week and often seven days per week in order to maintain service levels. This is not a sustainable situation and provides significant retention risk, something the District can ill afford. Senior staff also reported classified professional staff largely being unavailable and/or unresponsive while working remotely, further exasperating the workload for the senior managers. Accountability for this type of behavior displayed by classified professionals has, it was reported, typically met with strong resistance from the union as well as human resources.

It is untenable for senior managers to sustain the number of hours and days of work that is currently required for the Finance Division to function. While Recommendation 1 partially addresses this situation through the hiring of additional staff over time, the burnout rate for senior managers is reaching a critical level and should be immediately addressed. The senior managers should be supported in exercising their right of assignment to classified professionals and to shift appropriate duties to these individuals consistent with their job descriptions.

Senior managers should provide an accounting of how many hours they are working by function and in total during a given time period (week, month, etc.). It has been reported as well that constant interruptions to deal with “emergencies” significantly takes away senior manager’s ability to do their normal functions. This time should also be documented and quantified so as to provide a sense as to where specific assistance is needed. As stated, tasks that can be reassigned to other staff working far less hours should be embraced. However, hiring of temporary help either in the form of hourly employees or project managers should also be strongly considered. The senior managers within the Finance Division are carrying a heavy workload that should be immediately addressed through a reallocation of tasks to appropriate, existing individuals or be assigning them to others that are brought in to assist.