

## Special Visit Evaluation Report

Los Angeles Community College District  
770 Wilshire Boulevard  
Los Angeles, CA 90017

A Confidential Report Prepared for the  
Accrediting Commission for Community and Junior Colleges/  
Western Association of Schools and Colleges

This report represents the findings of the evaluation team that visited the  
Los Angeles Community College District on Thursday, May 2, 2013.

Ronald P. Gerhard	Vice Chancellor, Finance	Peralta CCD
Name of Team Chair	Title	Institution
Fred Williams	Vice Chancellor, Finance & Facilities	North Orange County CCD
Name of Team Member	Title	Institution

## **Introduction and Overview**

On May 2, 2013 a two person team visited the Los Angeles Community College District to assess progress made on recommendations 1, 2, 4, and 5 contained within the institution's Special Report submitted to the Commission on April 1, 2013. The visiting team received the Special Report and related evidence prior to the visit. Below is a schedule of the visit:

8:30 – Arrived at 770 Wilshire Blvd., Los Angeles

9:00 – Entrance Interview with the Chancellor and Executive Staff

9:30 – Interviewed District team members who participated in the District's response to the ACCJC 's recommendation #1

10:15 – Interviewed District team members who participated in the District's response to the ACCJC's recommendation #2

11:00 - Interviewed District team members who participated in the District's response to the ACCJC's recommendation #4

12:00 - Interviewed District team members who participated in the District's response to the ACCJC's recommendation #5

1:15 – Follow up interviews coordinated through Dr. Delahoussaye

3:30 – Exit interview with the Chancellor

4:00 – Visiting team departure

The purpose of the visit was to verify that the Special Report prepared by the Los Angeles Community College District in response to the ACCJC financial reviewer process was accurate, through the examination of evidence, and to determine if the institution had addressed and resolved the recommendations contained within the Financial Reviewer Report.

During the visit, the visiting team validated through conversations and review of documentation the progress made for each recommendation. The team found these meetings to be helpful and informative in validating and assessing the institution's achievements toward addressing the Commission's recommendations.

## **Response to the Commission's Recommendations**

The following recommendations were the basis for discussions, interviews, and review of evidence and data. The purpose was to determine if the institution had addressed and resolved the recommendations identified in the Financial Reviewer Report. The recommendations addressed focus on the institution's oversight and management of its capital bond program, status of corrective actions taken to address audit findings contained within the audited financial

statements, implementation of a resource allocation model that serves the mission of the colleges, and that the Board of Trustees demonstrate understanding of their governance role. Further, the team obtained evidence that the institution implemented procedures that will ensure accuracy of the annual financial reports submitted to the Commission going forward.

## **Responses to Specific Recommendations**

### **District Recommendation 1**

In order to meet the Standards and Eligibility Requirements, the Teams recommend that the District actively and regularly review the effectiveness of the construction bond oversight structure and the progress in the planned lifting of the moratorium to ensure the financial integrity of the bond programs, and the educational quality of its institutions as affected by the delays of the planned facilities projects. (Standard III.B.1.a; III.D.2.a; IV.B.1.c; Eligibility Requirements 17 and 18).

### **Observation and Analysis of the Evidence**

The Los Angeles Community College District has conducted a thorough review of the District's bond oversight structure. Starting with the formation of an Independent Review Panel comprised of leaders in the construction industry, this panel provided recommendations (January 4, 2012, 81 page report) on a variety of topics, including the Building Program's operations, controls, checks and balances, policies and procedures. In all, 17 recommendations were received and are in various stages of completion.

The most notable recommendation by the Independent Review Panel was to place a temporary moratorium on all construction projects that were in the beginning stages. This gave the District time to hire a new District Executive Director of Facilities Planning and Development, as well as time to evaluate each project for assurance that sufficient resources were available to maintain the facilities (Total Cost of Ownership), to determine if there was a need for the new space (Cap/Load Analysis), and whether there was adequate budget to complete the project. These conditions were met and the moratorium is being lifted in phases based on the merit of each project.

The District has also had numerous other notable achievements related to the implementation of the Independent Review Panel's recommendations:

- Revision to the District Allocation Model for M & O funding including a comprehensive plan for the Total Cost of Ownership (March 20, 2013 report);
- \$160 million Bond Reserve to appropriately address contractor defaults, claims, unforeseen conditions and other unbudgeted risks;
- Centralized Building Program Management Structure;
- Master Budget Plan that "locks in" baseline scope and budget at the project level; and

- The District's Citizens' Oversight Committee has been fully staffed and augmented with new members with construction experience

The District's Special Report to the Commission (April 1, 2013) was complete and contained a detailed explanation of the Independent Review Panel's purpose and the 17 recommendations, along with the supporting evidence to substantiate the status of addressing each of the recommendations.

The additional plans for the Board of Trustees and the District are to continue to implement the recommendations of the Independent Review Panel and consider additional Ad Hoc Committee policies to strengthen bond oversight and control.

### **Conclusion**

Tremendous progress has been made on the review of the effectiveness of the construction bond oversight structure and the moratorium that is being lifted in phases based on the merit of each project. A bond program of this size will always have some issues; a process has been developed and put in place for a regular review of the program.

### **Recommendation**

The District has met the requirements of this recommendation.

### **District Recommendation 2**

In order to ensure the financial integrity of the District and the colleges, and to meet the Standards and Eligibility Requirements, the Teams recommend the resolution of the material weakness and significant deficiencies cited in the 2010 financial audit be fully effected by the completion of next year's audit, and appropriate systems be implemented and maintained to prevent future audit exceptions. (Standards III.D.2.a; IV.B.1.c; Eligibility Requirements 17 and 18).

### **Observation and Analysis of the Evidence**

There were a number of audit findings from the 2010 audit report that were identified as being either a "material weakness" or "significant deficiencies" in internal controls. In total there were 16 audit findings. Four of these findings were related to the Basic Financial Statements and 12 of them were related to Federal Awards. The one "material weakness" in internal controls was over the Capital Assets and General Obligation Bond Program. All other mentioned findings were considered "significant deficiencies."

Upon review of the 2011 audit report, all 12 of the Federal Award findings were either fully implemented or partially implemented sufficient to be removed as “significant deficiencies.”

The four Basic Financial Statement findings still remain, as they were only partially implemented and an additional finding was added over the Financial Statement presentation.

In reviewing the 2012 audit report, three of the five Basic Financial Statement findings were fully implemented, which included Employee Benefits, Risk Management, and Financial Reporting. The “material weakness” related to Capital Assets and General Obligation Bond, as well as the significant deficiency related to Information Technology, remained as Basic Financial Statement findings. In addition, two new audit findings related to Federal Awards were identified as “significant deficiencies”; both of these new findings are related to Eligibility Requirements at the college level.

Both remaining findings related to the Basic Financial Statements have been outstanding over several years. While significant progress has been made, the District acknowledges in its 2013 Accreditation Special Report that additional work is needed to fully implement the auditor’s recommendations. District staff is tracking all the findings as evidenced by the District’s tracking log.

### **Conclusion**

Considerable progress has been made to resolve audit issues identified in the 2010 audit report. Based on information in the 2012 District Audit Report, the material weakness over internal controls related to the Bond Program still exists, however most of the major areas of concern in the original finding have been resolved. The area that still needs work is the booking of expenditures in the proper accounting period. The Technology Finding related to security and change management is still considered a significant deficiency, although with the additional plans being implemented as outlined in the District’s Accreditation Special Report, it is expected that this issue will be resolved.

### **Recommendation**

The District has partially met the requirements of this recommendation. As a follow-up, the 2013 audit report should be reviewed as part of the normal financial review process to track the progress towards full implementation of all audit findings.

### **District Recommendation 4:**

To fully respond to the recommendation first tendered by the Comprehensive Evaluation Team in 2006, and to reflect a realistic assessment of financial resources, financial stability, and the effectiveness of short- and long-term financial planning for the district and the colleges, and in order to meet the Standards and Eligibility Requirements, the Teams recommend that the district

adopt and fully implement as soon as is practicable an allocation model for its constituent colleges that addresses the size, economies of scale, and the stated mission of the individual colleges (IIID.1.b, IIID.1.c, IIID.2.c, IVB.3.c; Eligibility Requirements 17 and 18).

This recommendation calls for the District to develop, adopt, and fully implement a resource allocation model that addresses size, economies of scale, and college missions.

### **Observation and Analysis of the Evidence**

The visiting team met with members of the district team that worked and directly contributed to the District's response to recommendation 4. District team members included members from the finance and business office, a college president, members from the information technology department, classified staff representatives, and a representative of the academic senate.

In 2011, the District's Executive Committee of the District Budget Committee (ECDBC) reviewed the District's budget allocation formula (in 2007 the District modified its resource allocation model to reflect SB 361, the State's allocation model), reviewed the college's base allocations, reviewed assessments for Educational Services Center Operations, and reviewed the college deficit repayment policy. As a result of this effort, it was recommended that the allocation model be modified to include minimum base funding for all the colleges. This new provision would, among other things, address the concerns expressed regarding funding reflective of size and economies of scale. In an effort to implement and fully address this recommendation and minimize any potential negative impacts to programs and services, the implementation plan has two phases. The first phase approved by the Board of Trustees on June 13, 2012, provided increases to the colleges' basic allocations to fund minimum administrative staffing and maintenance and operational costs. As part of Phase I, a reserve was set aside earmarked to mitigate and offset any adverse effects on colleges as a result of a reduction in their budget allocation. This reserve was earmarked specifically for Phase I implementation, as no reductions would be imposed in the first year. Any reductions would then be gradually implemented over a three year period.

The second phase provides for the ECDBC to study the remaining allocation changes necessary to identify college needs, including maintenance and operations, as well as provide funding for the colleges to deliver equitable access for students, and ensure that the colleges are provided with sufficient funding to achieve their missions and maintain quality instructional and student services. Phase II also will address how the District will distribute any growth funding to the colleges through the resource allocation model. The District Budget Committee is scheduled to evaluate the new model at the end of the 2013-14 fiscal year to see if the new model has been effective in addressing the needs of the smaller colleges and the institution at large.

## **Conclusion**

The District has exerted great effort and devoted a considerable amount of resources to achieve a revised resource allocation model that addresses the size, economies of scale, and supports the stated mission of the individual colleges. Through the Team's examination of documents and evidence, it is very apparent that the process used by the District Budget Committee was transparent, included broad participation from the various constituencies within the District, and is widely accepted by even those colleges who may not receive as much funding as they otherwise would have. The District and Colleges are to be commended not only for their effort exerted but also for the transparent and collaborative process which was used to guide the institution forward.

## **Recommendation**

The District has met the requirements of this recommendation.

### **District Recommendation 5:**

To meet the Standard, the Teams recommend that the Board of Trustees make visible, in behavior and in decision-making, their policy role and their responsibility to act as a whole in the public's interest. Further, the Teams recommend continuing professional development for the Board of Trustees to ensure a fuller understanding of its role in policy governance and the importance of using official channels of communication through the Chancellor or his designee. (IVB.1.a)

This recommendation calls on the District's governing board to understand their policy role, responsibility for acting as a whole in the public's interest, and adherence to making sure that all communications with the staff involves the Chancellor or his designee.

## **Observation and Analysis of the Evidence**

Since January 2012, the Board of Trustees has undergone a regimen of professional development trainings, retreats, evaluation surveys, and revisions to Board Rules that address this recommendation. The visiting team met with three Board members, the Chancellor, and the Vice Chancellor for Educational Programs and Institutional Effectiveness to confirm the evidence provided in the Special Report and to hear directly from the Board leadership about the improvements made since 2011.

In February 2012, the Board conducted the first of three retreats aimed at reviewing data from the Board's annual survey and evaluation and discussed their role as it pertains to governance. The second retreat was held two months later in April 2012. This retreat covered characteristics of a successful Board versus an unsuccessful Board. The primary focus of this retreat was to reiterate the proper governance and leadership role of the Board and that their purview is to set

policy. The third and last retreat was held in November 2012 and focused on Board roles, responsibilities, and using the Chancellor as the conduit for communication throughout the institution. All of the retreats were facilitated by individuals with many years of experience in the California community college environment and widely recognized in their fields of expertise.

In January 2013 the Board conducted an evaluation that solicited input and responses from a broad representation of the District's constituencies. The results of this evaluation were compared to the self-evaluation that was conducted in 2012 to identify areas of increased commitment, as well as areas that showed need for improvement. The areas of Finance and Administration showed an increase in Board commitment, while the Community Relations and Educational showed least improvement in Board commitment. As a result, the Board committed to the development of specific actions for improvement in these areas and during the next evaluation will reassess progress made.

Lastly, the Board also has taken steps to codify and reinforce within its own policies that "...the Chancellor is the Trustees' sole employee; I pledge to work with the Chancellor in gathering any information from staff directly that is not contained in the public record." Additionally, language has also been included requiring Board member to make a commitment to civility and courtesy in order to demonstrate in work and deed to respect others and acknowledge that reasonable people can respectfully disagree based upon divergent views.

### **Conclusion**

Based upon evidence viewed and obtained by the visiting team, the Board of Trustees have provided clear evidence to show their commitment to ensuring that members understand their purview and governance role within the organizational structure. Further, the Board has affirmed that the Chancellor is their sole direct report and that through the Chancellor the Board's direction is carried out. The visiting team was provided an actionable improvement plan developed by the Board of Trustees to address the Accreditation Standards and deficiencies noted.

### **Recommendation**

The District has met the requirements of this recommendation.