Standard IIID: Fiscal Resources

> *Financial resources are sufficient to support student learning programs and services and to improve institutional effectiveness. The distribution of resources supports the development, maintenance, and enhancement of programs and services. The institution plans and manages its financial affairs with integrity and in a manner that ensures financial stability. The level of financial resources provides a reasonable expectation of both short-term and long-term financial solvency. A financial resource planning is integrated with institutional planning.*

Introduction

The financial situation at Santa Monica College has dramatically improved since the last accreditation visit in 2004. While the College's main planning documents—*Master Plan for Education*, *Comprehensive Facility Master Plan*, and *Master Plan for Technology*—continue to form the cornerstones of the planning processes, the District Planning and Advisory Council (DPAC) and its subcommittees now form the central planning structure, replacing the Collegewide Coordinating Council which had ceased functioning effectively at the time of the last visit. With the development of revised Mission, Vision, Values and Goals, Strategic Initiatives, and Institutional Learning Outcomes—all of which clearly articulate the College's values and serve as guiding principles coupled with new leadership committed to transparent and participatory governance—an atmosphere of trust, good will, and collegiality prevails throughout the college community.

This is particularly important as the College grapples with the combined effects of an operational deficit, the national economic downturn and the statewide budget crisis, which have resulted in reduced funding and certain future cutbacks. Even so, open discussion and close collaboration have allowed the College to maintain its renowned programs and student services. Improved accounting practices and the strength of a college community working together allow the College to confront fiscal challenges with optimism and determination and to continue to support the programs and services the students have come to expect. Although the number of course offerings have been reduced for the 2009-2010 academic year and some cutbacks have been necessary, the College continues to forge ahead seeking innovative and efficient solutions that will avoid program discontinuance and resultant low morale.

The Unrestricted General Fund budget of Santa Monica College in 2008-2009 was approximately $150 million, and the total annual budget exceeded $350 million, including restricted and bond funds. The California Community College system is primarily dependent upon state funding, which is, in turn, contingent upon the state economy. System funds are allocated to individual districts and colleges by formulas. State funding alone, however, is not sufficient to meet the College's budget. Even in sound budget years, the demand for continuous improvement, innovation and academic excellence exceeds the level of state funding. The College has therefore adopted a process for establishing priorities, beginning with the Board of Trustees setting guiding principles for the College and the deliberative process of the established participatory governance bodies. In addition, the College actively seeks funding from other sources such as grants.

IIID.1 The institution relies upon its mission and goals as the foundation for financial planning.

IIID.1(a) Financial planning is integrated with and supports all institutional planning.

Description—IIID.1(a)

Together with its subcommittees, DPAC is central to the planning process and, through the participatory governance process, integrates financial decision making with the mission and goals of the institution. DPAC and its related subcommittees include representatives from the entire college community; the subcommittees include:

- Budget Planning Subcommittee
- Technology Planning Subcommittee
- Facilities Planning Subcommittee
- College (Operational) Services Planning Subcommittee
- Human Resources Planning Subcommittee

Based on recommendations from DPAC, its subcommittees, several Academic Senate joint committees and input from area managers, senior staff meet with the Superintendent/President to develop the annual budget and ensure that the institutional objectives can be accomplished within a balanced budget. Final decisions and accountability rest with the Superintendent/President and the Board of Trustees.

DPAC, as the central planning body, oversees the work of its subcommittees which contribute to documents that outline the planning process and link institutional goals to the college budget. The annual updates to the *Master Plan for Education* serve as the basis for all planning efforts, including financial planning. The *Comprehensive Facility Master Plan* delineates both long- and short-term construction and programming plans. The *Master Plan for Technology,* with its more specific budgetary focus, is also updated annually. As illustrated in the description section of Standard IVA.5, the annual master plan updating process reviews the effectiveness of the previous year's fiscal expenditures on the achievement of the specified objectives.

Appropriate committees, fiscal service professionals, departments and senior staff analyze previous budgets comparing them to actual annual expenditures. Projected revenues provided by the state and revenues from other sources provide the framework for the annual budget, supported by the *Master Plan for Education*, departmental requests, and other approved recommendations. For example, departments utilize the results of their student learning outcomes assessments as well as enrollment history and projections in developing their class schedule requests. While budget requests for ongoing operational needs are not required to redemonstrate a specific link to planning documents, requests for discretionary budget increases and new positions, equipment, and facilities require a detailed justification, including the relationship of the request to planning goals and learning outcomes.

The process includes mid-year modifications to the budget. The uncertain state budget is a major factor requiring flexibility throughout the funding cycle. For example, short-term financial planning must be tied to the annual budget but at the same time remain adaptable to changes (including mid-year budget reductions from the state) that may appear at scheduled state funding revisions in February and May. Departments review detailed monthly budget reports, and DPAC, the Budget Planning Subcommittee, the senior administrative staff, and the Board of Trustees review budget reports quarterly or more often as changing budget conditions require.

The College manages a complex budget, of which more than 85 percent of the expenditures are for salaries and benefits, leaving little room for budget adjustments. Much of the remaining budget is tied to fixed costs such as utilities. As a result, the allocation of limited discretionary resources poses significant challenges. Additionally, external challenges such as the recent changes to procedures for accounting for post-retirement benefits made by the Governmental Accounting Standards Board have increased the College's annual costs affecting both current financial statements and the College's long-term financial outlook.

Another primary piece of the long-term budgeting process is facilities planning. Limitations imposed by a densely populated, 38-acre main campus site and five smaller satellite sites have offered challenges for short- and long-term financial planning. For example, the immediate need to provide inter-campus shuttle services and parking for the satellite sites has significant long-term financial implications. Similarly, short- to intermediate-term planning is associated with the *Five Year Construction Plan*, which is revised annually so that the five year period moves forward on a rolling basis. Long-term planning is integral to the *Comprehensive Facility Master Plan*, which is formally updated periodically throughout its ten-year cycle, and the process is rebuilt from a fresh perspective when each new cycle begins. The Facilities Planning Subcommittee reviews and updates both plans, which are ultimately approved by the Board of Trustees.

The *Comprehensive Facility Master Plan* developed in 1998 is reaching the end of its ten-year life cycle and a new plan is being developed to support the College through its next ten years. Detailed in Standard IIIB, the College has accomplished or is implementing most of the modernization and new facility projects included in the 1998 *Comprehensive Facility Master Plan* including construction of the new Student Services building, which was the final project of the plan.

The new *Comprehensive Facility Master Plan* is being developed with the assistance of an outside consulting group and includes input from the college community and the external community that comprises the College's service area. The first collegewide meeting for developing the *Comprehensive Facility Master Plan* for the next ten years was part of the March 19, 2009 Institutional Flex Day. The entire college community, as well as members of the surrounding community, are engaged as the master plan development process unfolds.

Long-term building projects, defined in the original plan, are largely funded by construction bonds, which must be approved by a 55 percent vote of the local community. Over the last several years, the College has passed several bonds that have enabled it to implement many of the replacement and modernization plans recommended in the *Comprehensive Facility Master Plan*:

- In 2002, the College successfully passed Measure U, a $160 million bond measure. This bond measure supported the Emeritus College site, the Bundy site purchase and renovation, the Theatre Arts renovation, the North Quad Plaza, and several other projects.
- In 2004, Measure S was passed providing an additional $135 million for facilities improvements. Projects funded with this bond include renovation of the athletic fields which are used jointly by the College and a local middle school, the Performing Arts Center, a childcare center and early childhood education laboratory, a Malibu educational center, and other projects.
- In 2008, voters approved another capital improvement bond, Measure AA, for $295 million. The projects to be completed with this bond issue include the relocation of the Information Technology Department and data center, renovation of the multipurpose room at the Performing Arts Center, development of a new media and technology complex at the Academy of Entertainment and Technology site, and a career opportunity and advancement center at the Bundy site.

The success of these bond measures is testament to the community's support for the College and their approval of the projects funded under previous bond measures.

Another example of how planning is integrated with financial planning is the Strategic Planning Initiative, begun during Summer 2006 at the direction of the Superintendent/President. The four Strategic Initiatives developed were based on the College's Institutional Learning Outcomes and its master plans and are a nexus between the College's Mission, Vision, Values and Goals and its financial planning processes. The Strategic Initiative development included an iterative process whereby strategies identified by the planning group were vetted by the college community prior to being approved by DPAC, the Superintendent/President, and the Board of Trustees and resulted in a plan to be implemented over several years for achieving those initiatives, one of which is financial stability.

Evaluation—IIID.1(a)

Since the last accreditation visit, the environment in which budget planning and project prioritizing discussions take place has improved dramatically. This is particularly impressive in view of the prolonged period in which the College lacked a permanent chief business officer. The current Vice President, Business and Administration began his tenure with the College in July 2009, filling a position that had been vacated by the former Chief Business Officer, who had assumed the position just six months earlier, in January 2009. Prior to that, the position had been vacant since Fall 2006. During the vacancy, the position was temporarily filled by two interim consultants reporting to the Executive Vice President, who was also responsible during periods without support from the temporary consultants.

Prior to 2004, mutual trust among participatory governance stakeholders was at an all time low, and the accuracy of the financial reports was widely debated. Users' lack of understanding regarding the financial reports and their mistrust of the financial information presented contributed to a weakened link between institutional planning and budget planning. In contrast, by systematically educating budget planning participants, providing understandable documentation and increasing the transparency of accounting processes, the college community now trusts the accuracy and reliability of college financial reports and participates fully in budget planning discussions.

Financial information is now distributed regularly, to administrators responsible for managing their respective budgets and for providing input to the accounting system. The same information is also distributed to collegewide users of financial information. Area managers receive regularly scheduled training in the specific accounting requirements related to the expenditures and revenue streams under their purview, and managers and college leaders receive information according to a published calendar. Financial updates are also presented regularly to the DPAC Budget Planning Subcommittee and to the Board of Trustees.

Over time, the systematic training of DPAC members, the DPAC Budget Planning Subcommittee members, the Board, and other planning bodies has enabled a much broader group of college personnel to understand the format and content of the financial statements presented, thus encouraging wider and more meaningful participation. Examples of resultant contributions and the success of the current process, evidenced throughout the Budget Planning Subcommittee Minutes, are described in Standard IIID.1(d).[i]

Documents and procedures that support the clarity and availability of this financial information have been widely released. Fiscal Services has developed a detailed Fiscal Services Accounting Procedures manual, describing both the up-front budgeting process and the approval and review processes for recording material changes. In addition, the Office of Fiscal Services has developed and adheres to accounting procedures that clarify the state *Budget and Accounting Manual*.

The marked growth in trust and collegiality in the financial planning process was possible due to the commitment of collegewide leadership including the Board of Trustees, who take their fiduciary responsibility seriously and who hold ultimate fiscal responsibility for the institution and its support of the College's mission. The Board is apprised of all financial and other planning activities through weekly reports, monthly meetings, individual meetings with the Superintendent/President and senior staff, and other informational and planning meetings. Indeed, the Board's commitment to fiscal conservatism has supported the College's Mission, Vision, Values and Goals by building a reserve that allows the College to make responsible decisions even in periods of statewide budget uncertainty.

Budget planning is linked to the College's mission at several levels. An index of DPAC actions, maintained and presented in each DPAC meeting agenda and summarized in the DPAC Annual Report,[ii] provides an overview of the actions, many of which are budgetary actions, taken at the highest level of the College's participatory governance processes.

Similarly, the Academic Senate Joint Program Review Committee prepares an annual report summarizing the overarching issues and recommendations for institutional support, which it submits to DPAC and which is available for review and use by other interested parties and senior staff. Program review procedures directly link the Mission, Vision, Values and Goals and Institutional Learning Outcomes to departmental activities and effectiveness. The report synthesizes the information from all of the departmental and service area program review documents and summarizes various needs from the perspective of the College overall.

External funding is another example of the synergy and linkages between planning and the College's mission and goals. A report summarizing the linkages between the Board's goals and the external grant funding pursued by the College was presented during the July 2009 Board of Trustees meeting.[iii]

Overall, the update process for the *Master Plan for Education* (Figure IIID-1) illustrates how all college planning organizations, the master planning documents and the College's goals and strategic initiatives are linked to the College's mission and to budget planning. Even in times of financial crisis, stakeholders active in the participatory governance process unite in the face of these challenges to find solutions that allow the College to fulfill its mission and work toward the achievement of its goals.

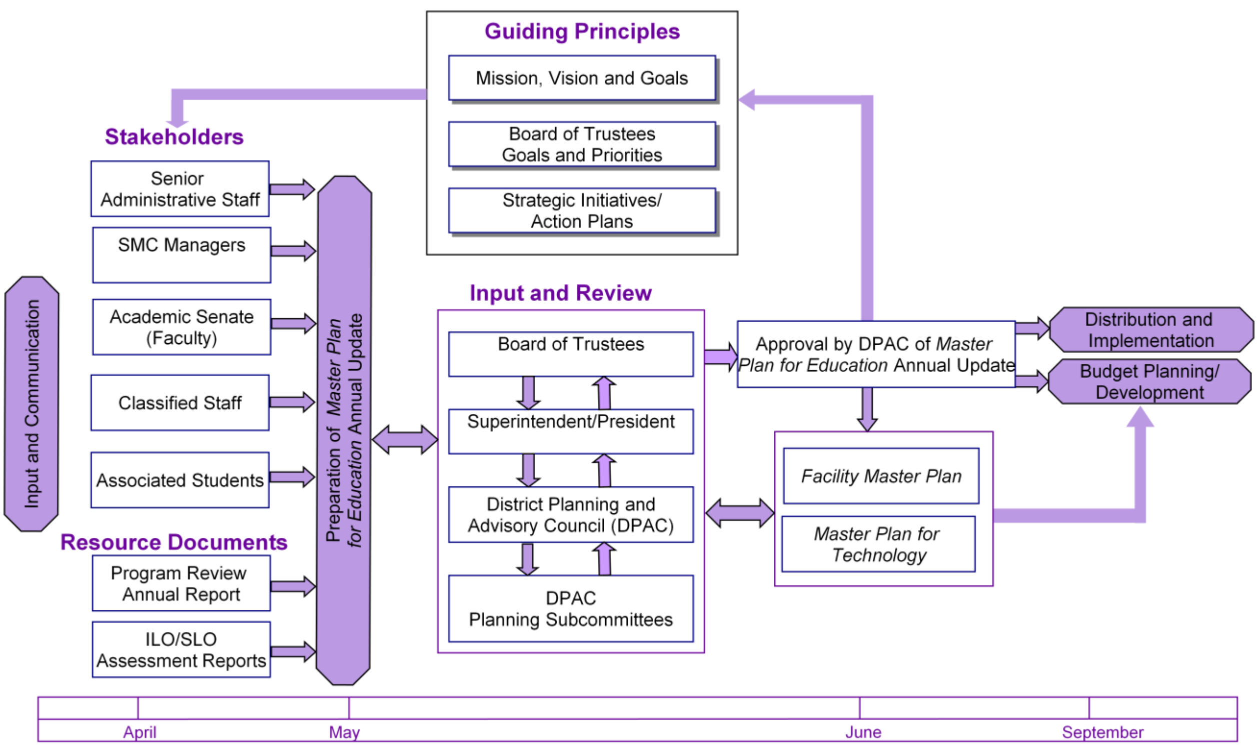


Figure IIID-1: Master Plan for Education Annual Update Process

IIID.1(a)—Plan

None

IIID.1(b) Institutional planning reflects realistic assessment of financial resource availability, development of financial resources, partnerships, and expenditure requirements.

Description—IIID.1(b)

The College stays abreast of changes in state funding priorities and factors these and other state guidelines into the budgeting process and in developing the *Five-Year Capital Improvement Plan*, the *Master Plan for Technology*, and the *Comprehensive Facility Master Plan.* Members of the college community engaged in the budget planning process are fully aware of the College's financial situation through their representation on DPAC. DPAC develops the annual updates to the *Master Plan for Education* based on input provided throughout the year, including reports from the five DPAC planning subcommittees (Budget, Facilities, Human Resources, Technology, and College Services), and Academic Senate Joint Program Review, Student and Institutional Learning Outcomes, and Curriculum committees. The reports received from these committees, as well as input from DPAC resource liaisons, enable DPAC to develop annual updates to the *Master Plan for Education* that place emphasis on student learning.

The primary (but unpredictable) source of the College's funding is state apportionment, which is calculated on the basis of the FTES generated by the College's course offerings. The planning and execution of scenarios surrounding this major factor in short- and long-term planning are discussed at length in Standard IIID.1(c). Apart from the attention to the funding stream based on FTES, the College continues to actively seek alternate sources of funding including international and out-of-state student tuition revenue, state and federal grants, Certificates of Participation, general obligation bonds and the formation of Workforce and Economic Development partnerships.

The Board of Trustees, DPAC, senior administrative staff and area managers assume responsibility for supporting student learning and balancing the budget by maximizing revenue sources and monitoring expenditures. A model planning relationship has traditionally existed between the offices of Business and Administration and Academic Affairs with regard to linking the planning of scheduled course offerings to projected funding. Working together, the two offices have been remarkably accurate in projecting the student enrollment that will be produced by careful planning and allocation of class offerings. The Office of Enrollment Development closely monitors student enrollment and coordinates with Student Affairs and Academic Affairs to identify student demand opportunities and patterns to assist in the scheduling of courses throughout the enrollment process. As state revenues declined in the 2008-2009 academic year, careful planning and real-time analysis of enrollments resulted in a "fill rate" of over 91 percent for Spring 2008 and 101.1 percent for Fall 2009, which is only possible with a combination of close administrative monitoring and faculty willingness to add late-arriving students.

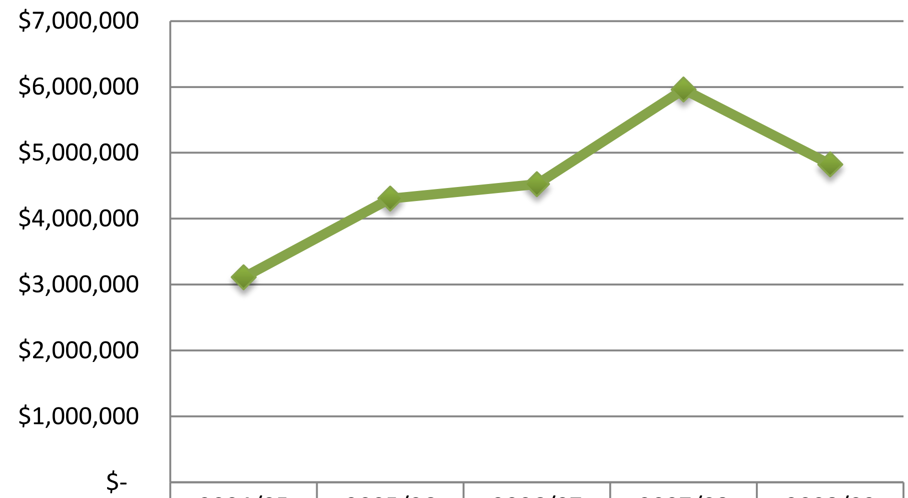
Another factor in the improvement of the planning process and the integration of revenue streams and expenditure plans over time is the Strategic Planning Initiative, which includes fiscal stability as one of the action plans. This process, begun under the direction of the Superintendent/President, charged the DPAC with developing and implementing a multi-phase process to engage the college community in meaningful dialogue over matching institutional visions with action plans. In February 2009, as part of this process and in the face of current and future state budget uncertainty, the Board of Trustees held a day-long study session to brainstorm long-term financial strategies for implementing the College's top priorities and to address the College's structural operating deficit, which poses a threat to the long-term availability of a healthy fund balance that will see the College through times of financial crisis. While such study sessions are open to all members of the college community, the discussion takes place primarily among the Board of Trustees with focused presentations made by specific participants (typically the Superintendent/President or members of the senior administrative staff).

One area of focus for fiscal planning is the enrollment of international and non-resident students. International students comprise the majority of the non-resident student population at the College and represent one of the largest international student populations in the nation. The revenue generated for the College by its international students enhances the College's ability to support its mission and goals. International students pay both a non-resident tuition fee and a capital improvement fee. At almost ten percent of the 2008-2009 general fund unrestricted revenue, international student fees represent a significant, though variable, funding source. Projections of non-resident enrollment are based on a number of factors including current non-resident enrollment and the number of credits remaining for current students to complete their educational goals, the application pattern for the coming year, and changes in immigration law.

External funding also supplements the College's general fund. In recent years, state block grants and categorical funds have enabled the College to implement a number of planning goals in specific areas including several projects described in Standard IIIC (Technology Resources) such as the virtual server infrastructure technology designed to minimize the hardware requirements needed to provide technology resources to college users. These one-time funds are not included in budget planning for current or upcoming years as they are not part of state budget projections. One-time funds and block grants have been a major factor in technology funding over time. This has been a concern among decision-makers in this arena: if these funds are not available (and indeed most have been deleted from the current budget), the College will have to find alternate sources of funding to support technology needs and initiatives. In Spring 2008, prior to the decline in the state economy, the Technology Planning Subcommittee requested that the DPAC Budget Planning Subcommittee add a budget line-item for funding regular operating and scheduled maintenance and replacement technology expenditures. As no revenue stream for funding has been identified for this item, this remains under discussion.

The College has also managed a stunning array of facility improvements, successfully dovetailing state funding cycles, local bond measures, and the physical constraints of construction on a busy and densely populated campus. As mentioned in Standard IIID.1(a), the College has passed a series of capital improvement bonds—totaling $590 million—that collectively have enabled the College to significantly improve its facilities and plan for future projects.[iv]

The College has also been proactive in planning for and acquiring external funding through grants and contracts. Grant funding has been pursued to support both existing programs and the development of new programs. For example, Health Sciences obtained a three-year grant to standardize portions of the nursing curriculum in media-enhanced formats that students could access online. The College's relatively new Logistics program has also obtained grant money to develop new courses designed to enhance students' marketable skills. In 2008-2009, the College received 12 new competitive awards, valued at about $3.6 million, in addition to $1.2 million in ongoing funding from multiyear grants. As shown in Figure IIID-2, the College manages approximately $5 million each year in grant projects funded by local, state and federal agencies (not including categorically-funded programs such as Matriculation, Extended Opportunity Programs and Services or Disabled Students Programs and Services).[v]



	2004/05	2005/06	2006/07	2007/08	2008/09
Grant Funding	$3,112,857	$4,306,343	$4,524,993	$5,960,821	$4,825,133
# of Grant Awards	19	21	20	23	28

Figure IIID-2: Santa Monica College Grant Awards (2004-2005 through 2008-2009)

Partnerships with external groups and grant funding secured through those partnerships have also been incorporated into the planning processes of the College. The Office of Workforce and Economic Development has made concerted efforts to secure external funding through independent contracts and through partnerships, which have resulted in grants totaling more than $6 million between 2004 and 2008. One of these was a grant from the federal Small Business Administration for a Small Business Development Center established in partnership with the City of Santa Monica. Several other grants support the development of "green" job training, in direct response to the College's planning objectives.

Evaluation—IIID.1(b)

Over the past six years, through discipline, foresight and integrated planning processes, the College has developed an array of financial resources and partnerships to augment state funding streams. As a result, the College has amassed a fund balance, as of June 2009, of over $19 million. However, rising costs in nearly all budgeted areas of campus expenditures have occurred at a time when state cost of living increases and recovery of mandated costs have been non-existent. Hence, it is possible that the annual operating deficit could eliminate the budgetary cushion in less than three years. Action is therefore required to re-balance the budget and revisit every aspect of college revenue and expenditures to eliminate the structural operating deficit.

Discussions of these serious budgetary challenges take place across the College and at all levels, including academic departments and the Academic Senate, which regularly include budget reports on their respective agendas. In addition, the Vice President, Business and Administration prepares best- and worst-case scenarios, which are discussed at DPAC Budget Planning Subcommittee meetings and Board of Trustees study sessions.

Plan—IIID.1(b)

- The College will develop a plan to reduce the structural operating deficit.
- The College will develop a funding strategy that institutionalizes ongoing funding for technology in a budgetary line-item.

IIID.1(c) When making short-range financial plans, the institution considers its long-range financial priorities to assure financial stability. The institution clearly identifies and plans for payment of liabilities and future obligations.

Description—IIID.1(c)

The *Master Plan for Education* forms the basis for long-range planning and establishing fiscal priorities to achieve plan objectives. Other long-range documents described in Standard IIID.1(a) and (b) further support the long-range planning for financial stability. On the other hand, short-range plans tend to be more responsive to immediate fiscal realities.

Payments of long-term liabilities and obligations are included in both short- and long-range planning, with plans matched to revenue streams wherever appropriate. For example, the long-term debt accrued through a Certificate of Participation to pay for the College's parking structures is predicated on the projected revenue from parking permits. Similarly, the Certificate of Participation issued for the purchase of the Academy of Entertainment and Technology satellite site is being funded by the capital improvement fee collected from international students.

In addition, the College has recognized its obligation to fund the other post employment benefits and has placed $1.4 million dollars in an irrevocable trust in response the Governmental Accounting Standards Board (GASB) provision (i.e., GASB Statement 45 or, more commonly, GASB 45). The College annually reviews its financial condition at the time of budget adoption and may, upon direction from the Board of Trustees, contribute $500,000 dollars to the irrevocable trust until the Actuarial Accrued Liability for current employees and retirees is met.

As stated previously, the climate is much improved since the last accreditation with regards to the budget planning process among members of the college community. There have been many open and frank discussions in the Budget Planning Subcommittee over the past few years, often resulting in changes in procedures or presentation of budget-related information used in the planning phase of the budget development cycle. An illustration of this is the discussion regarding the accuracy in predicting expenditures in the annual budget. Staffing expenditures predictions were routinely overstated because the prevailing practice had been to budget the cost of the vacant position for the entire year, even though positions were often not filled until mid-way through the year or not filled at all. To more accurately reflect the actual expenditures in the adopted budget, the College initiated a "Designated Reserves" category to reflect costs of items that the Board of Trustees had committed to that would occur sometime in the future. Vacant positions, the Global Initiative and GASB 45 funding are examples of items that have appeared in the Designated Reserves on past annual budgets. This category, although only an internal reporting mechanism, continues to be debated in the Budget Planning Subcommittee but is a planning component still used in the budget development cycle.

These planning mechanisms and discussions influence the budget development cycle. During the budget development cycle for each succeeding fiscal year, adjustments based on the current year's budget take into account: the current year's estimates for ongoing operations and obligations; the prior year's actual expenses and revenue; and the future year's new obligations and revenue projections.

Despite this careful and conservative planning, the College continues to sustain a structural operating deficit but is working to reduce this through limitations on hiring and reductions in discretionary budgets when possible. However, some operational costs continue to impact the budget. For example, state apportionment includes growth revenue for new buildings, which becomes part of the base budget. In theory, the increased maintenance costs of bringing a new building on line are added to and continued in the base budget apportionment. In reality, when the base budget is cut or adjusted after the fact for funding deficits at the state level, funds for maintaining new buildings are also reduced, resulting in expenses the College must include in future budget planning.

Enrollment fluctuations and changes in state funding for enrollment growth also require ongoing adjustments to short- and long-term financial planning. In recent years, the College has modified its approach to enrollment planning in an attempt to recover from the planned enrollment decline in 2003-2004 due to stabilization. For various reasons, enrollment difficulties continued through the 2005-2006 academic year, and the College again found itself having to choose between increasing enrollment by borrowing from the subsequent summers' enrollment or suffering a decline in apportionment base funding for 2006-2007. The new Superintendent/President, upon his arrival in February 2006, identified enrollment recovery as paramount and asked the senior administrative staff to develop several scenarios based on various enrollment levels and the effect each projection would have on the College's fiscal health.

After much discussion and debate of the various scenarios, DPAC and its Budget Planning Subcommittee recommended to the Superintendent/President that the College proceed with "borrowing" the number of full-time equivalent student enrollments from Summer 2007 necessary to maintain base funding for 2006-2007, but with the proviso that a plan be developed for reducing summer enrollment borrowing over time. In addition to these fiscal planning efforts, several new recruitment initiatives were expanded or initiated including Fantastic Fridays (a program of hosted tours and assessment testing for new student applicants from area feeder schools) and the Welcome Center (centralizing services for new students and providing proactive counseling and enrollment support). These enrollment enhancement initiatives involved many faculty, administrators and staff from the entire college community including Counseling, Outreach, Financial Aid, Admissions and Records and Enrollment Management as well as other aspects of college policy and processes (e.g., information on the college website, fee payment policies, dual enrollment policies, faculty awareness, and the myriad ways the College communicates with students).

Enrollment planning was also affected by the College's decision in 2006 to assist a sister institution, Compton Community College, as it awaited a decision on its pending accreditation status. The College was granted the funding of 500 full-time equivalent students in return for assisting a sister college by providing instruction for two Summer 2006 intersessions. This added a new component to the College's ongoing long-term discussions regarding enrollment revenue strategies and spurred the development of several new multi-year enrollment/funding scenarios. These scenarios were discussed openly at all levels of the participatory governance process, particularly within DPAC and its Budget Planning Subcommittee. The College, after an agreement to enter funding stabilization, has since met or exceeded enrollment projections through Fall 2009.

Another important long-term plan, implemented in January 2007, was the administrative reorganization that created a new Vice President, Enrollment Development position to head a new college division charged with centralizing services directly related to new students and the marketing of student programs. The name itself of this new division, Enrollment Development as opposed to Enrollment Recovery, signals the shift in focus from a short- to long-term initiative that will ensure the College's fiscal viability. Two of the division's immediate successes include implementing a new college website design and partnering with the City of Santa Monica and the Santa Monica College Associated Students to provide free bus transportation (the "Any Line, Any Time" program) to the College's staff and students, thus mitigating long-term parking and traffic problems.

Evaluation—IIID.1(c)

As shown in Figure IIID-3, the College's fund balance has increased over the last several years, but continues to vary as fiscal conditions change. In June 2003, the District had a $1,862,057 fund balance equal to approximately 1.78 percent of expenditures, falling well below the five percent reserve recommended by the California Community Colleges Chancellor's Office. As of June 30, 2009, the fund balance had grown to $19,408,758 (including designated reserves) or 14.47 percent of expenditures. This increase in the contingency reserve directly impacts the College's ability to adapt to changes in economic conditions and to meet its long-term obligations when faced with short-term financial uncertainties. Due to careful budget planning and fiscal conservatism, the College now maintains a fund balance considerably above the five percent reserve recommended by the state, but must address the structural operating deficit and changes in state funding to ensure that the fund balance remains healthy over time as the College grapples with the prolonged financial crisis.

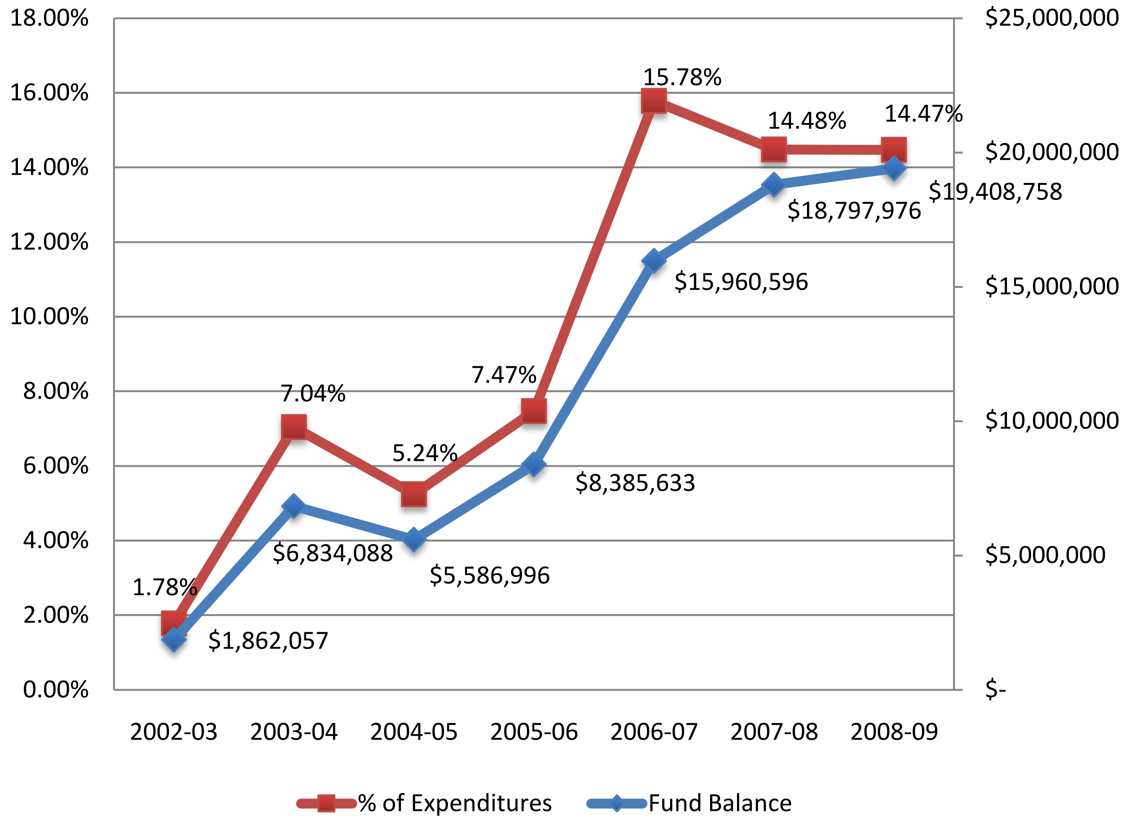


Figure IIID-3: College Fund Balances (Dollar Amount and as a Percentage of Expenditures) 2003-2004 through 2008-2009

In addition, the focus on enrollment growth as an inevitable and necessary part of long-term financial planning now includes open discussion of all possible scenarios that include other funding opportunities as well as current and projected enrollment.

Committing to long-term obligations, after an analysis of all costs and benefits, requires the most current, complete and accurate information. This is particularly important in the area of payroll and related costs, which comprise more than 85 percent of the budget. Unexpected increases in health care benefits and consequences of contractual changes are more easily managed if projections are vetted transparently and cooperatively. Sustainable accounting techniques that include all costs of otherwise intangible items such as accrued vacation time and faculty banked-time can be included as factors in projections of long-term personnel costs.

Plan—IIID.1(c)

- The College will develop a plan to reduce the structural operating deficit.

IIID 1(d) The institution clearly defines and follows its guidelines and processes for financial planning and budget development with all constituencies having appropriate opportunities to participate in the development of institutional plans and budgets.

Description—IIID.1(d)

As documented in the accreditation progress report,[vi] the mid-term report,[vii] and in Standard IVA (Decision-Making Roles and Processes), the College has reorganized its participatory governance structure over the last several years beginning with the creation of DPAC and its subcommittees. Meeting twice monthly, the Budget Planning Subcommittee includes leadership from the Classified State Employees Association, the Faculty Association, the Academic Senate, Associated Students, the Management Association, and college administration. Fiscal Services provides the committee with financial updates, budget education, and relevant requested information.

In addition, improvements in the fiscal services area, identified as a priority subsequent to the previous accreditation self-study, have been implemented including the hiring of additional Fiscal Services staff, clarification and documentation of the budget process, and establishment of transparency and trust in reporting fiscal data. Specific changes include:

- new policies, procedures and forms that clarify financial processes;
- timely distribution of budgetary reports to departments to enable effective planning and monitoring throughout the year;
- development and implementation of new policies and procedures that decrease processing time of requests and that improve response time to questions from members of the college community;
- membership and regular participation of the Director, Fiscal Services on the Budget Planning Subcommittee to improve its functionality through direct and timely responses to questions regarding financial data;
- regular distribution of financial reports and budgetary updates to all interested parties through a distribution list and discussion at the Budget Planning Subcommittee;
- creation of scenarios explaining the state funding process as it relates to student enrollment, thus providing the college community with a more complete understanding of funding strategies;
- implementation of a month-end closing of the financial records to improve the accuracy of the data used in financial reports; and
- improvements in the format of budget reports that permit detailed explanations of data.

As mentioned in Standard IIID.1(a), an example of one document delineating the budget process is the Fiscal Services Accounting Procedures.

College committees and departments utilize planning documents such as the annual updates to the *Master Plan for Education* to inform their budgetary recommendations and decisions and to ensure that allocations meet funding guidelines and college goals and objectives. For example, the Academic Senate Joint Career Technical Education Committee plays an active role in the budget recommendation process for the allocation of Vocational and Technical Education Act funds for the following year. Career technical education programs submit plans to the committee, which recommends funding allocations based on the perceived ability of the proposed project to respond to and meet the state-negotiated core indicators.

Departments, programs, and other college groups submit requests for additional financial support in years when the budget includes increased revenues. Requests for increases in discretionary budgets and additional classified staff and management positions are reviewed by senior administrative staff, and available funds are allocated based on priorities established to meet college goals and objectives. The impact on improving student learning, meeting college goals, and responding to externally imposed mandates are the driving forces behind these decisions. These allocations are reviewed annually by the Budget Planning Subcommittee as part of the budget cycle.

In addition to the college community's participation in the budgeting process accomplished through the DPAC Budget Planning Subcommittee, input is also sought from the college community on specific issues. An example of this the College's response to the Governmental Accounting Standards Board (GASB) provision (i.e., GASB Statement 45 or, more commonly, GASB 45) to provide more complete, reliable, and decision-useful financial reporting regarding the costs and financial obligations that governments incur when they provide postemployment benefits other than pensions as part of the compensation for services rendered by their employees.

At the request of the Board of Trustees, DPAC formed the GASB 45 Task Force and charged it with educating the college community on GASB 45; recommending whether to prefund Retiree Health Benefits; and identifying permanent streams of revenue if the Task Force recommended prefunding them. All members of the college community were invited to participate and the Task Force had its first meeting November 9, 2007. Numerous guests were invited to present information to the task force, including representatives from several irrevocable trusts. At its last meeting on January 24, 2008, the GASB 45 Task Force developed a recommendation to be presented to DPAC that the College begin to pre-fund the retiree health benefits obligation for a period of five years with a contribution of $1.4 million the first year, and annual contributions of $500,000 for the next four years with a re-evaluation of the retiree liability at the end of the five-year period. DPAC affirmed the recommendation and forwarded to the Superintendent/President who made a formal recommendation to the Board of Trustees. The Board approved the recommendation of the Task Force with minor modifications at its March 10, 2008 meeting.

Evaluation—IIID.1(d)

In February 2007, the DPAC Budget Planning Subcommittee unanimously approved a motion of commendation of the College's Fiscal Services staff for the timeliness, accuracy, clarity, and transparency of the fiscal information provided to the committee during the 2006-2007 fiscal year. In stunning contrast to the sentiments expressed in the 2004 accreditation self-study, this is perhaps the most compelling indication of the considerable efforts devoted to addressing the particular recommendation made by the previous accrediting team.

In addition, Academic Senate joint committees, entrusted with presenting funding recommendations for consideration, now embrace the effective practices regarding published matrices for decision-making and clear delineation of the priorities used in decision-making. For example, the Academic Senate Joint Information Systems Committee posts selection criteria[viii] for technology requests to their website as does the Sabbaticals and Fellowships Committee for faculty to use when preparing proposals for sabbatical leaves and fellowship projects.[ix] Calendars of the request-for-funding processes are published in a timely manner allowing departments to adequately gather supporting rationale for their requests and to discuss the requests within their department areas and align them with their department vision and goals for learning outcomes.

Plan—IIID.1(d)

None

IIID.2 To assure the financial integrity of the institution and responsible use of financial resources, the financial management system has appropriate control mechanisms and widely disseminates dependable and timely information for sound financial decision making.

IIID.2(a) Financial documents, including the budget and independent audit, reflect appropriate allocation and use of financial resources to support student learning programs and services. Institutional responses to external audit findings are comprehensive, timely, and communicated appropriately.

Description—IIID.2(a)

The primary force driving the College budget is the schedule of classes, which is developed in response to student needs, institutional objectives, and projected enrollment. Throughout the budget planning process, funds are first allocated to ongoing expenses, including anticipated increases in those expenses, with any additional funds allocated to support of institutional objectives established through the planning process. These objectives support the College's mission and goals, which focus on improving student learning.

Each year, the College is audited by an independent certified public accounting firm with expertise in governmental accounting, community college accounting practices, and California state law. As part of the review, internal controls over accounting procedures, compliance with applicable accounting standards, recording reliability, and reporting accuracy are tested and evaluated. The designation of a set of financial reports with "no exceptions" or only "minor exceptions" and resulting in an "unqualified opinion" represent the ideal result that organizations strive to achieve. "Unqualified opinion" states that the financial statements are presented fairly and in conformity with Generally Accepted Accounting Principles. The College has achieved these results in the years ending June 30, 2005 through June 30, 2009. In December 2009, the auditors again found all of the College's programs to be in full compliance and provided an unqualified opinion with no findings.

This excerpt from the 2008 audit report represents the typical conclusion that has appeared in the audit reports for each of these years:

> *In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the Santa Monica Community College District as of June 30, 2008, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States.*

If there are ever any major or minor exceptions, these are noted in the "audit findings," which are then addressed as a high priority by college personnel. These findings and the corrections are subsequently re-evaluated by the auditors and are re-addressed as part of the following year's audit report.

Each year, the annual audit report is presented to the Board of Trustees at a regularly scheduled public meeting, providing the public the opportunity to comment.

Evaluation—IIID.2(a)

Since the 2004 accreditation cycle, the College has received unqualified opinions from the auditor for its audits based on Generally Accepted Accounting Principles and the standards applicable to financial audits contained in Government Auditing Standards issued by the US Comptroller General.

However, there were a few minor audit findings and minor fiscal adjustments during this period. For example, it was suggested that the process for calculating course materials fees should be improved. Such recommendations are addressed immediately, and actions taken are documented and reviewed at the next audit period.

As noted in the description, the College has received no *major* audit findings or fiscal adjustments for its audits for the years ending June 30, 2005 through June 30, 2009. Given that there had been major audit adjustments and exceptions in audit reports prior to this period, the stellar record over the last several years is indeed a remarkable achievement and is due to the proactive changes made in the Fiscal Services area. The Accounting Department and Fiscal

Services take great pride in maintaining the current high standard each year. The Board of Trustees, in its annual review of the audit report at a regularly scheduled public meeting, acknowledges this achievement and expects the College to maintain this standard.

In addition to the above-mentioned successes, at the conclusion of the 2006-2007 audit, the College received a "low risk" audit status with respect to compliance with accounting standards for federal programs. Furthermore, since 2004-2005, there have been no material compliance issues with respect to compliance with state regulations.

Plan—IIID.2(a)

None

IIID.2(b) Appropriate financial information is provided throughout the institution.

Description—IIID.2(b)

The DPAC Budget Planning Subcommittee receives regular financial reports and updates. This committee serves as the primary conduit for disseminating financial and budget information to the college community. Representatives from the college community serve on the committee and are charged with reporting back to their respective groups. Budget recommendations are forwarded from the Budget Planning Subcommittee to DPAC. If accepted by DPAC, the recommendations are forwarded to the Superintendent/President for consideration. The Superintendent/President's decision regarding each recommendation is then communicated back to DPAC at a subsequent meeting.

Budgets are assigned to a system of cost centers, generally tied to departments, programs, specific offices, or functions. Each cost center receives a monthly budget report and monitors the expenditures. Vice presidents are also accountable for ensuring that the cost centers within their areas of responsibility remain within budget.

The annual audit and quarterly budget reports are presented to the Board of Trustees in regularly scheduled public sessions. As the body ultimately responsible for the financial position of the College, the Board of Trustees is also given regular updates with regard to any changes to the current budget and the projected impact of legislation, funding agency requirements, and externally driven changes in expenditures.

In addition to the annual audit and quarterly budget reports presented to the Board of Trustees in public sessions, copies of the audit report and any other financial reports requested are sent to the leadership of the Faculty Association, California School Employees Association, Academic Senate, Associated Students and any interested party who makes a request. In compliance with the Brown Act, copies are posted in advance and maintained in the college library archives and on the college website for public access.[x]

Evaluation—IIID.2(b)

The College has made great strides in ensuring that members of the college community have access to clear, reliable, timely, and transparent reports in which the college community can have full faith and confidence. The Director, Fiscal Services is a member of the DPAC Budget Planning Subcommittee and makes regular reports to this planning body, answering questions and providing additional information requested by committee members, thus adding to the general trust regarding financial reports and assurance that the fiscal processes are transparent.

Financial information is also distributed regularly, both to administrators responsible for managing their respective budgets and providing input to the accounting system and to collegewide users of financial information. The regular distribution of information greatly assists the administrators, managers, department chairs and faculty leaders in their ongoing financial planning processes.

Plan—IIID.2(b)

None

IIID.2(c) The institution has sufficient cash flow and reserves to maintain stability, strategies for appropriate risk management, and realistic plans to meet financial emergencies and unforeseen occurrences.

Description—IIID.2(c)

Based on a hitherto predictable cycle of state funding, the College has historically maintained a sufficient cash flow needed to maintain a reserve and meet its obligations. However, cash flow is governed by the revenue source. Typically, once the state budget has been approved by the legislature, apportionment is channeled through the Los Angeles County Office of Education and allocations are received monthly. The bulk of enrollment fees and non-resident tuition is received at the beginning of the fall and spring semesters, and property tax revenue is received throughout the property tax cycle, generally as two large installments and then smaller amounts intermittently. In 2009, however, the state deviated from past practice and announced that it would delay payments by up to six months.

Despite the current uncertainty, and as illustrated in Figure IIID-3, the District's fund balance has increased from a low of less than $2 million in 2003 to more than $19 million (or 14.47 percent of expenditures) as of June 30, 2009. This increase in reserves has substantially increased the College's ability to maintain stability in the face of financial uncertainties.

During periods of surplus cash flow, the College receives substantial interest from the County Treasury Pool. If cash flow is tight and funds are needed to meet operational needs, the College has traditionally borrowed funds using Tax and Revenue Anticipation Notes, which must be paid back in April of the fiscal year in which they are borrowed. Fortunately, the flow of apportionment, property tax, and student tuition revenues generally occurs with sufficient time to meet the payback deadlines. In addition, amounts not in the General Fund may be “borrowed” by way of a short-term inter-fund transfer, with Board of Trustees’ approval, should the need arise. These funds must be repaid in the same fiscal year in which they occur. The Board has pre-approved short-term transfers of up to $30 million on an as-needed basis. The College only uses Certificates of Participation for the acquisition of assets, not to meet cash flow needs.

The College maintains insurance policies to protect itself from financial loss from liability claims and/or property damage and from internal and/or external circumstances, factors, or parties. Santa Monica College’s risk management is divided into three components: property and liability, worker’s compensation, and preventive safety. The College’s property and liability programs are secured through the Statewide Association of Community Colleges. The primary policies have deductibles of $25,000 for liability and $100,000 for property. In addition, the District has secured supplemental coverage of up to $10 million for liability and replacement cost for property. The Protected Insurance Program for Schools provides workers’ compensation coverage.

The College is a member of the California Community College Risk Management Association; safety concerns are addressed through this organization. The College’s Office of Risk Management is responsible for monitoring and meeting federal and state mandated compliances (e.g., Air Quality Management District and State of California Division of Occupational Safety and Health regulations, hazardous materials and waste treatment, and storm water management), managing environmental reviews, and responding to violation citations. The office is also responsible for processing worker’s compensation claims.

The College weathered funding crises in the early 1990s, and following the program cuts in 2003-2004, has recovered and rebuilt its cash reserves. Nonetheless, it does not operate in a vacuum, nor is it immune to national or statewide economic downturns, and it currently is experiencing an ongoing structural operating deficit. As health care, insurance, energy, personnel, and other costs continue to increase, projected state revenues are expected to decline between 2009 and 2011, creating an economic environment that exacerbates the financial challenges at the College. The fiscal conservatism and substantial fund balance carryover from the 2007-2008 fiscal year have averted an immediate crisis, but budget cuts have been necessary, and a collegewide discussion of budget scenarios in Spring 2009 was held in an attempt to prevent the erosion of the fund balance within three fiscal years, forecast as a result of the structural operating deficit.

Several fiscal initiatives designed to mitigate a crisis were proposed by members of the college community in Spring 2009 and thereafter as new information arose. These initiatives were discussed in the Budget Planning Subcommittee and DPAC and several were recommended to and subsequently approved by the Superintendent/President.[xi]

Evaluation—IIID.2(c)

Collegewide trust in the financial projections described in the budget scenarios contributes to an overall sense of cautious optimism that the ongoing fiscal challenges will be met successfully. In addition, the large reserve currently held by the College is a mitigating factor. The experience of rebuilding the reserve over the last five years and the leadership and fiscal discipline that have been practiced by the Board of Trustees should help the College weather difficult economic times ahead without compromising its commitment to its mission and goals.

Plan—IIID.2(c)

- The College will develop a plan to reduce its structural operating deficit.

IIID.2(d) The institution practices effective oversight of finances, including management of financial aid, grants, externally funded programs, contractual relationships, auxiliary organizations or foundations, and institutional investments and assets.

Description—IIID.2(d)

Ultimate fiscal responsibility for the College rests with the Board of Trustees, which reviews quarterly budget reports as well as reports on financial aid, auxiliary services, and workforce development efforts. All grants and externally-funded programs and contractual relationships must be accepted and approved by the Board. Creation of budgets for grants and other externally-funded projects, issuance of purchase orders, and payments to contractors and vendors are dependent upon Board approval and evidence that college fiscal procedures have been followed. For example, no invoice is paid without a purchase order or contract as well as certification that the goods or services have been delivered. All of these steps provide checks and balances to ensure appropriate oversight of finances.

Fiscal Services establishes and maintains internal control procedures that support financial integrity and ensure that financial resources are being used for institutional programs and services. A complete audit is conducted annually by an independent certified public accounting firm to verify the integrity of all financial records and internal controls. The annual audit findings are evaluated and addressed in a timely manner, and any necessary changes in internal control procedures are implemented.

In addition, through the review of monthly budget reports, internal self-audits are conducted regularly by Fiscal Services and by other programs and departments within the College. Due to regular drawdown of funds for students, financial aid is subject to ongoing internal review, and all financial aid cash requisitions must be reviewed and approved by Fiscal Services. Grants are audited by the vice president in whose area of responsibility the grant belongs and are also reviewed at the time reports are prepared for submission to the granting agency.

Further financial oversight is provided by the DPAC Budget Planning Subcommittee. The committee reviews quarterly financial reports as well as the annual college budget before it is presented to the Board of Trustees, and the committee makes recommendations based on this information to DPAC, which forwards these recommendations directly to the Superintendent/President for review and response.

The auxiliary operations of the College consist of Auxiliary Services, Special Events, Food and Vending, the Associated Students, the college radio station KCRW, the Santa Monica College Foundation and the Madison Theater Project. Additionally, various departments have established trust accounts in Auxiliary Services, including Financial Aid (i.e., Auxiliary Services processes and accounts for the financial aid checks dispersed to students each semester). Some of these accounts are established to handle revenue-generating activities produced by individual departments such as athletic events and theatrical presentations.

- **Auxiliary Services** oversees the campus bookstores, the sale of college parking permits, transportation, the Bursar's Office (student fee collection), and trust accounts. The campus bookstore is a self-supporting operation. Any profits from the operation are used to enhance the operation (e.g., construction of the main campus bookstore expansion and upgrade of the bookstore's inventory maintenance system) and to fund programs such as Athletics, Music, Dance and Theatre Arts. Funds generated from parking permits are used to pay off parking structure debt.

- **Food and vending operations** are under the purview of the Director of Contract Services. Contracts are awarded following college contractual agreement policies and procedures. Funds generated from these contracts cover capital improvements of the Cayton Center (Student Activities Building), as students are the primary generators of these funds. Food and vending income also supports various campus activities and operations.

- **Facilities Rentals** are managed by the Director of Facilities Programming. The rental fees received are re-entered into the College's general, unrestricted fund.

- **KCRW** is a public radio station with a large following of 550,000 listeners weekly and is supported by 55,000 member-subscribers. Operations are entirely supported through fundraising and listener donations, which are held in a trust account in Auxiliary Services.

- **Associated Students** receives the revenue generated by the Associated Students membership fee (currently $19). As shown in Figure IIID-4, each membership is

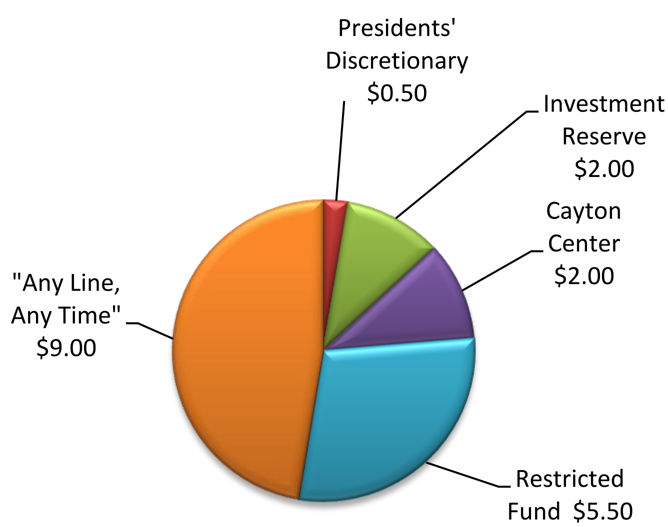


Figure IIID-4: Allocation of Associated Students' Membership Fee

allocated to a variety of funds including the Restricted Fund (used to support student clubs and other projects), the Investment Reserve (used to fund student scholarships), and the "Any Line, Any Time" partnership with the City of Santa Monica that allows fee-paying students free usage of the City's Big Blue Bus lines.

- **The Financial Aid Office** is a student services office within the Enrollment Development division and is audited annually. While offering other services including counseling and student employment processing, its primary function is to provide financial assistance to students. In recent years (from 2004-2005 through 2007-2008), the College has averaged approximately 10,500 financial aid recipients annually but in recent years, those numbers have climbed dramatically. During this four year span of time, the College has generated over $73 million in federal and state financial assistance—an average of more than $18 million per year. During the 2009-2010 school year, the College will generate over $20 million of assistance to over 14,000 students. More than 5,000 students receive Pell Grants totaling close to $15 million. The Financial Aid Office is subject to the College's annual audit as well as periodic audits by the Cal Grant Program and the US Department of Education. Financial Aid is highly regulated by the federal government, and the results of the College's annual audits are reported back to US Department of Education.

The Santa Monica College Foundation, the KCRW Foundation, and the Madison Theater Project have their own boards of directors and are subject to an annual audit conducted separately from the College's audit. The Santa Monica College Foundation Board and the Madison Theater Project Board are responsible for overseeing the management of investments and distributing income in accordance with donor wishes. Funds held by the Santa Monica College Foundation generally fall into two categories: restricted or unrestricted.

In addition to being monitored by the College's Board of Trustees, all capital project bonds must be overseen by a Citizens Oversight Committees to ensure that taxpayer dollars are being spent properly. As described in Standard IIB, the Citizens' Bond Oversight Committee includes members of the College and the community appointed by the Board of Trustees. According to its bylaws, the Citizens' Bond Oversight Committee meets four times per year and is responsible for reviewing quarterly expenditure reports produced by the District to ensure that bond proceeds are expended only for the purposes set forth in the ballot measure; no bond proceeds are used for any teacher or administrative salaries or other operating expenses; and bond proceeds are maximized.[xii] The Committee summarizes its activity in an annual report.[xiii]

Evaluation—IIID.2(d)

The College demonstrates integrity and the proper use of college funds in all areas as evidenced by the fact that, over the past four years, there has been no major audit issue findings related to financial errors or omissions, and the College is now designated as a "low risk audit" for federal programs.

Minor issues have been discovered that are compliance-related rather than finance-related. For example, midway through the 2007-2008 fiscal year, auditors requested implementation of stricter procedures to guard against fraud. In response to this request, the College developed Board Policy 6116, Reporting Fraud, Waste, or Abuse, which the Board of Trustees approved in February 2009. In accordance with this policy, the District established an anonymous mechanism for reporting fraud concerns, developed to comply with the recommendations published by the American Institute of Certified Public Accountants regarding anti-fraud programs. This program was officially launched at the beginning of the 2009-2010 fiscal year.[xiv]

Multiple factors can be attributed to the substantial drop in the number and severity of audit findings over the past few years: Accounting Department staffing has been increased; Fiscal Services has been reorganized to provide a more direct line of communication between accountants and the Director, Fiscal Services; and managers and administrators have placed greater emphasis on financial controls. External regulations, such as the Statement on Auditing Standards 99 and 112, have also revised auditing procedures to be more rigorous. For example, the exit meeting to discuss any findings with the auditors, previously held in private with senior staff, must now include at least one Board of Trustees member, providing another layer of oversight.

In addition, efforts by Fiscal Services to convey and clarify complex budget reports to the Budget Planning Subcommittee have greatly enhanced the transparency of college finances and contributed to a greater sense of trust throughout the college community regarding the utilization of college funds.

Most of the positive changes in the College's accounting practices have been driven by a shifting culture within Fiscal Services and among senior administrators over the past five years. Fiscal transparency, clear communication, and compliance with required checks, controls, and procedures have resulted in greater trust and enhanced collegiality collegewide.

In addition to the official oversight of the bond issues, the passage of the bond measure AA in November 2008, in the midst of an economic down turn, attested to the faith the community has in the financial integrity of the College and its use of taxpayer funds.

Plan—IIID.2(d)

None

IIID.2(e) All financial resources, including those from auxiliary activities, fund-raising efforts, and grants are used with integrity in a manner consistent with the mission and goals of the institution.

Description—IIID.2(e)

The same financial oversight system described in Standard IIID.2(d), which guards against fraud and ensures fiscal responsibility, also helps to ensure that financial resources are used with integrity in a manner consistent with the goals and mission of the College. Within the college system, every purchase begins with a requisition form that must be approved by ascending levels of management, including the vice president in charge of the requestor's area or the vice president's official designee. A representative of Fiscal Services must provide a final signature of approval.

While most college employees are expected to be aware of whether a given purchase is in line with the College's mission, values and goals, the vice presidents and Fiscal Services representatives are fully qualified by virtue of training, knowledge, and experience to serve as effective guardians in this regard. In addition, contracts that require an outlay of more than $50,000 to a single vendor must be presented in detail to the Board of Trustees prior to approval. The Board not only operates according to the College's mission and goals, but also helps create and shape them, and the fiscal approval process is an extension of the College's established values.

Use of auxiliary funds is determined by the department or program raising the funds and is assumed to be consistent with departmental/program goals, which, in turn, have been designed to meet institutional goals.

Funds donated to the Foundation, Madison Theatre Project, or KCRW, whether restricted or unrestricted, support initiatives that are consistent with specific college or program goals. All special funds are audited or reviewed by the funding agency and consistently demonstrate the integrity of financial management practices. These audits and reviews are independent of the annual college audit.

Grants and other requests for external funding are also subject to internal review to ensure they are used to support the College's mission and goals and that the proposed budget is sufficient to meet the plan:

- Primary review and approval is performed by the Director, Grants and by the initiating dean or manager.
- Completed grant proposals are also reviewed by areas potentially impacted (e.g., offices of Human Resources, Planning and Development, Academic Affairs, and Student Affairs).
- Review and approval is also performed by the vice president (or official designee) in charge of the initiating area in consultation with the Superintendent/President.

This tri-level review ensures the integrity of the request, foreknowledge of any financial obligation (such as a match) on the part of the College, and that the commitment of the grant, and therefore the College, is consistent with stated goals. Finally, all funded grants must be approved by the Board of Trustees before they can be received by the College.

Beyond these internal checks and controls, most funding agencies providing grant funding also require evidence demonstrating how proposed projects are aligned with an institution's goals and its mission.

Evaluation—IIID.2(e)

Financial resources, even those outside of district operational revenue, are used to meet college and program goals, which are tied to the College's mission and goals. While neither auxiliary nor Foundation funds may be used for district operational expenses, they serve to add value to programs and projects for which district funds are not available.

Plan—IIID.2(e)

None

IIID.2(f) Contractual agreements with external entities are consistent with the mission and goals of the institution, governed by institutional policies, and contain appropriate provisions to maintain the integrity of the institution.

Description—IIID.2(f)

Contractual agreements are entered into to provide the College with services that support its mission and goals, including construction contracts, consultant contracts, service contracts, and lease purchase agreements. All contracts are thoroughly reviewed by the Director, Purchasing and Contracts before they are signed, and standard terminology protecting the College is included in contractual agreements so that the integrity of the institution is maintained. Added control in maintaining its integrity in district contracts is provided by the fact that few individuals at the College are authorized to sign contracts and those who are valid signatories for contracts have received training in contract administration and management. All contracts require approval by the Board of Trustees and are included in the agenda of its monthly open meetings, thus providing an opportunity for public comment and open discussion by the Board.

California *Education Code* and the College's Board Policies (BP 6250, Contracts for Materials and Services and BP 6255, Delegation to Enter Into and Amend Contracts) define bidding and expenditure limits of purchasing activities. The conflict-of-interest policy prohibits the purchase of materials or services from any employee or student of the District except under specific conditions. The Purchasing Department is responsible for ensuring that the College obtains the best possible prices while adhering to state regulations. To this end, the College participates in a number of consortia and "piggybacks" on state and county contracts. The Purchasing Department employs both formal and informal bidding processes, depending upon the projected cost of a purchase order and/or if it falls above or below the state-mandated threshold requiring competitive bidding.

Contractual agreements are entered into and monitored following specified processes, including appropriate review, consistent with the mission and goals of the College, and according to sound fiscal policy, and they include a clause allowing cancellation with 30-day notice.

Public project contracts over $15,000 require either the use of a public government contract or a bid process, with the award going to the qualified lowest bidder. Large equipment purchases and construction contracts constitute the majority of bids solicited by the College. This affects planning to the extent that extra time must be built into any purchase or project requiring a bid process.

In 2008, the California School Employees Association (CSEA) raised concerns regarding the District's contracting practices. The Board of Trustees established an internal Board Subcommittee which conducted interviews with various staff members during which both the Superintendent/President and Campus Counsel were present. Concerns raised during the interviews included bargaining unit work given to outside contractors; the lack of transparency in the process of issuing purchase orders to outside contractors; the lack of centralized record keeping related to outside contracting; and that purchase orders involving public projects did not comply with the Labor Code requirements on prevailing wages. Following these interviews, the Board Subcommittee prepared a report that summarized its conclusions.

As a result of the Board Subcommittee report, a comprehensive institutional review was undertaken by the Superintendent/President. The Superintendent/President's internal review concluded that new procedures were needed to ensure compliance with the CSEA collective bargaining agreement and legal requirements. These steps were shared with the college community at the May 2009 Board of Trustees meeting. Some of the principal steps taken include:

- The Vice President, Human Resources developed procedures to review all requests for the use of outside contractors. The projects are reviewed to determine whether the work involved constitutes bargaining unit work. The review also ensures that the District can fulfill its notification obligations to the CSEA in a timely manner. Since this process was implemented, disputes with CSEA over outside contracting have been reduced.

- The Vice President, Business Administration developed a purchasing grid that delineates the processes that must be followed for outside contracting.

- The Vice President, Business Administration directed the implementation of a web-based work order system. The web-based work order system should provide a better management tool for costing projects to determine whether they should be competitively bid as public works projects. This will also allow the better planning of projects and better project coordination.

- New procedures have been instituted to ensure that all purchase orders involving public projects comply with the Labor Code requirements on prevailing wages. Campus Counsel drafted appropriate contract language to ensure compliance with prevailing wage requirements set forth in the Labor Code.

In addition to these steps, the Board of Trustees adopted a Board Policy 2115, Institutional Accountability, in June 2009.[xv]

Evaluation—IIID.2(f)

All contracts are entered into to achieve objectives and acquire services consistent with the College's Mission, Vision, Values and Goals and Institutional Learning Outcomes. A variety of checks and balances are in place to ensure that the funds are allocated in accordance with their intended purposes.

Plan—IIID.2(f)

None

IIID.2(g) The institution regularly evaluates its financial management processes, and the results of the evaluation are used to improve financial management systems.

Description—IIID.2(g)

All areas of the College contribute to the financial management process. Managers are responsible for budgets in their areas and major budget recommendations are vetted through the College's planning structure.

Continuous quality improvement is a priority for the College. To this end, the reorganization of Fiscal Services area has been evolving since 2004, and procedures and processes at every level have been examined, modified, re-evaluated and documented. Training processes within the department have been institutionalized to ensure continuity and consistency in the application of these procedures and processes.

The annual audit is the primary external source for evaluating financial management processes. Feedback and findings from the audit are one source used to improve financial management systems. Other sources include feedback from the program review process and from budget area managers and other members of the college community who rely on budget-related processes and reports.

Once the annual budgets are loaded into the accounting system, monthly budget printouts reflecting the prior month's activity are electronically distributed to each cost location manager for reference and review. The cost location manager reviews the budget and transactions and contacts the Accounting Department with any changes, questions, or corrections, ensuring that the budget and ledger are correct.

The purchasing process is an integral part of the financial management system. When a requisition is received by Purchasing, a requisition number is assigned and a purchase order issued (and assigned a new number). The initiator retains a copy of the requisition and is sent a copy of the purchase order. Most purchases are delivered to Receiving, which certifies receipt of the item(s) and the request initiator approves payment of invoices by Accounts Payable.

The process is still paper-based, but Fiscal Services has been working toward an electronic purchasing process, and online processing of requisitions using the Los Angeles County Office of Education's system is now being beta-tested. Professionals within the Fiscal Service area are already using this tracking system and can more readily respond to managers' requests concerning the progress of a requisitioned item.

Evaluation—IIID.2(g)

Since 2004, the Fiscal Services organization and its systems have been substantially improved as evidenced by commendations from the DPAC Budget Planning Subcommittee and the college community's general satisfaction with the communication from and reports generated by this area. Exemplary audits further attest to the successes of its internal evaluation and continuous improvement processes.

Fiscal Services recently enabled managers to gain online access to view their budgets on a "real time" basis. This access also allows them some visibility into the accounting processes, limited ability to track purchase orders and invoice payments, and enables them to keep track of expenses and budget line items in a more timely manner than the static "month end" report provides.

While there has been improvement in monitoring fiscal workflow processes (i.e., purchasing and accounting) and managing the prodigious amount of paperwork associated with them, the tracking system is still cumbersome and impedes the end-users' ability to monitor their budgets and track expenditures efficiently.

Plan—IIID.2(g)

- The College will fully implement the internal tracking and response system for various fiscal processes to enable requestors to monitor activity.

IIID.3 The institution systematically assesses the effective use of financial resources and uses the results of the evaluation as the basis for improvement.

Description—IIID.3

When developing a comprehensive, planned approach to fiscal management, the College considers a wide range of fiscal resources. These resources are assessed based on the College's ability to meet its highest priority needs, which must be justified in light of its Mission, Vision, Values and Goals. The College includes recommendations from DPAC and its Budget Planning Subcommittee and several Academic Senate joint committees in various budgeting activities and processes each academic year.

As outlined in Standard IIID.1(a), several documents are reviewed by DPAC and its subcommittees as part of the financial planning process. In preparing budgets for adoption by the Board of Trustees, the District Accounting Department creates various models that project revenue, expenses, enrollment, apportionment revenue, and capital outlays. The adopted budget is regularly audited and compared against actual events and periodically adjusted. Financial planning typically begins at the department/program level, where yearly budgets are created and requests for augmentation prepared for review by senior administration. Historically, this bottom-up approach has effectively served the needs and interests of the District.

Under the new governance and planning documents adopted over the last six years, it is the responsibility of the DPAC Budget Planning Subcommittee to assess the effective use of college financial resources as a basis for improvement. In its support of the Budget Planning Subcommittee, the district accounting staff prepare a number of different models that drive the budgeting process. These models are regularly reviewed and refined, increasing the level of confidence in their use.

The measurement tools used by the College have proven effective in evaluating expenditures. The Budget Planning Subcommittee annually reviews its role and makes plans for how it can be more instrumental in overall college financial planning. Since most of the budget goes to employee salaries, benefits, and fixed or mandated costs, there is a limited amount of discretionary funding (about 12 percent of the total college budget) available for ancillary uses such as contracts, consultants, supplies and student workers. The Budget Planning Subcommittee bases its decisions on established priorities as well as analysis of previous effectiveness.

Evaluation—IIID.3

Budget priorities are set based on college goals and objectives, and the College has taken significant steps to link the use of financial resources to college goals and objectives. The entire college community—including students, staff, faculty, and administration—actively participates in the yearly budgeting cycle at many different levels. These long-standing implicit and explicit processes have worked well to ensure meaningful participation and buy-in from the college community.

Retrospective reporting as well as future projections are used to guide the District Planning and Advisory Council, the Budget Planning Subcommittee, various Academic Senate joint committees and a number of other campus planning bodies that recommend the allocation of financial resources.

In the past, accreditation reports have noted that the college community lacked confidence in (or flatly mistrusted) the College’s budgeting process. More recently, however, the District has made significant strides to improve its budget process, as evidenced by improved audit reports and increased confidence among the college community.

Plan—IIID.3

- The College will improve ways in which to explicitly document how the budgets for specific initiatives tie into the College’s Mission, Vision, Values and Goals.

Selected Standard IIID References

[i] DPAC Budget Planning Subcommittee Minutes: http://www.smc.edu/apps/Pub.asp?Q=1106

[ii] DPAC 2008-2009 Annual Report:
http://www.smc.edu/projects/31/District_Planning_and_Advisory_Council/2009DPAC/DPAC-2008-09_Annual_Report.pdf

[iii] Board of Trustees Minutes for July 2009: Appendix A, Grant Funding Status Report:
http://www.smc.edu/projects/32/Trustees_Meeting_Information/Board_of_Trustees_Meetings/2009/2009-07-07-Minutes.pdf

[iv] Bond-funded Project Status: http://smcbondprogram.com/

[v] Overview of 2008-2009 Grant-Funded Projects (Addendum A in Board of Trustees Meeting, July 7, 2009):
http://www.smc.edu/projects/32/Trustees_Meeting_Information/Board_of_Trustees_Meetings/2009/2009-07-07-Minutes.pdf

[vi] Accreditation Progress Report (March 25, 2005):
http://www.smc.edu/Projects/31/AccreditationProgressReport_Mar-25-2005.pdf

[vii] Accreditation Mid-Term Report (March 22, 2007):
http://www.smc.edu/Projects/31/AccreditationMidtermReport_Mar-22-2007.pdf

[viii] Academic Senate Joint Information Services Committee Criteria for Technology Funding Requests:
http://www.smc.edu/Projects/37/Information_Services/Documents/ISC_funding_criteria.pdf

[ix] Academic Senate Joint Sabbaticals and Fellowships Committee Website:
http://www.smc.edu/apps/pub.asp?Q=2126&B=1

[x] College Audit Reports: http://www.smc.edu/apps/pub.asp?Q=548

[xi] Budget Savings Initiatives:
http://www.smc.edu/Projects/31/District_Planning_and_Advisory_Council/2009DPAC/DPAC-2009-06-17-Minutes.pdf

[xii] Citizens' Bond Oversight Committee Bylaws:
http://www.smc.edu/measure_u/oversight/bylawsdoc.html

[xiii] Citizens' Bond Oversight Committee Annual Reports: http://smcbondprogram.com/category/oversight-committee-details/committee-reports

[xiv] Fraud Alert Factsheet: http://www.smc.edu/Projects/31/SMC_Fraud_Alert_Fact_Sheet2009.pdf

[xv] Board Policy 2115, Institutional Accountability:
http://www.smc.edu/projects/32/Board_Policy_Manual/BP_2000_General_District.pdf