

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

Reissued Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd E.S., and
Chapter 1118, Statutes of 1987

July 1, 1999, through June 30, 2002



BETTY T. YEE
California State Controller

July 2015



BETTY T. YEE
California State Controller

July 31, 2015

Pearl Cheng, President
Board of Trustees
Foothill-De Anza Community College District
12345 El Monte Road
Los Altos Hills, CA 94022-4599

Dear Ms. Cheng:

The State Controller's Office audited the claims filed by the Foothill-De Anza Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 1999, through June 30, 2002.

This reissued final audit report supersedes our previous final report, issued on March 10, 2004. We revised Findings 1 and 2 of the final report to allow costs for student accident insurance costs and related indirect costs for fiscal year 1999-2000, based on a statement of decision adopted by the Commission on State Mandates (Commission) on March 27, 2015. The statement of decision responded to an incorrect reduction claim the district filed with the Commission on the audit adjustments. The revision increased allowable direct (salaries, benefits, materials, and supplies) and indirect costs by \$35,176 for FY 1999-2000, from \$702,421 to \$737,597.

The district claimed \$1,817,357 for the mandated program for the audit period. Our audit found that the entire amount is unallowable. Total program costs are unallowable because the district's offsetting savings/reimbursements (authorized health fee revenues) exceed allowable direct and indirect costs for each fiscal year of the audit period. The State made no payments to the district.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Costs Audits Bureau, by telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JB/as

cc: Linda M. Thor, Ed.D., Chancellor
 Foothill-De Anza Community College District
Kevin McElroy, Vice Chancellor
 Business Services
 Foothill-De Anza Community College District
Joni Hayes Lamprey, Director
 Budget Operations
 Foothill-De Anza Community College District
Sirisha Pingali, Senior Accountant/Grants Monitor
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Reissued Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by the Foothill-De Anza Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 1999, through June 30, 2002.

The district claimed \$1,817,357 for the mandated program. The audit found that the entire amount is unallowable. Total program costs are unallowable because the district claimed unallowable costs and overstated its indirect cost rate. The State made no payments to the district.

Background

Chapter 1, Statutes of 1984, 2nd Extraordinary Session, repealed Education Code section 72246, which authorized community college districts to charge a health fee for providing health supervision and services, direct and indirect medical and hospitalization services, and operation of student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating community colleges districts' authority to charge a health fee as specified.

Chapter 1118, Statutes of 1987, amended Education Code section 72246 to require any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (Commission) determined that Chapter 1, Statutes of 1984, 2nd Extraordinary Session, imposed a "new program" upon community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year for FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applied to all community college districts that levied a health service fee in FY 1983-84.

On April 27, 1989, the Commission determined that Chapter 1118, Statutes of 1987, amended this maintenance of effort requirement to apply to all community college districts that provided health services in FY 1986-87, requiring them to maintain that level in FY 1987-88 and for each fiscal year thereafter.

The programs parameters and guidelines establish the state mandate and define reimbursement criteria. The Commission adopted parameters and guidelines on August 27, 1987, and amended them on May 25, 1989. In compliance with Government Code section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 1999 through June 30, 2002.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations.

To achieve our audit objectives, we performed the following audit procedures:

- Interviewed employees, completed the internal control questionnaire, and performed a walk-through of the cost components of each claim.
- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to the mandated activities.

Conclusion

The audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Revised Schedule (Summary of Program Costs) and in the Revised Findings and Recommendations section of this report.

For the audit period, the Foothill-De Anza Community College District claimed \$1,817,357 for costs of the legislatively mandated Health Fee Elimination Program. The audit found that the entire amount is unallowable. The State made no payments to the district.

**Views of
Responsible
Officials**

Sirisha Pingali, Grants Monitor/Senior Accountant, responded via email on June 9, 2015, stating that the district will not be providing a response to the revised audit results.

**Reason for
Reissuance**

We issued a final audit report on March 10, 2004. We reissued the final report based on a statement of decision adopted by the Commission on March 27, 2015. The statement of decision responded to an incorrect reduction claim the district filed with the Commission on the audit adjustments. Based on the Commission's decision, we eliminated the audit adjustments for student accident insurance costs and related indirect costs for FY 1999-2000. As a result, allowable direct (salaries, benefits, materials, and supplies) and indirect costs increased by \$35,176 for this fiscal year, from \$702,421 to \$737,597. However, the district's offsetting savings/reimbursements (authorized health fee revenues) exceed allowable direct and indirect costs for each fiscal year of the audit period.

Restricted Use

This report is solely for the information and use of the Foothill-De Anza Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

July 31, 2015

**Revised Schedule—
Summary of Program Costs
July 1, 1999, through June 30, 2002**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
Salaries	\$ 986,174	\$ 332,004	\$ (654,170)	Finding 1
Benefits	200,758	69,265	(131,493)	Finding 1
Services and supplies	<u>256,633</u>	<u>238,840</u>	<u>(17,793)</u>	Finding 2
Subtotals	1,443,565	640,109	(803,456)	
Indirect costs	<u>526,612</u>	<u>97,488</u>	<u>(429,124)</u>	Findings 1, 2, 3
Subtotals, health expenditures	1,970,177	737,597	(1,232,580)	
Less offsetting savings/reimbursements	(1,423,576)	(1,172,784)	250,792	Finding 4
Adjust for health fees exceeding health expenditures	<u>—</u>	<u>435,187</u>	<u>435,187</u>	
Total program costs	<u>\$ 546,601</u>	<u>—</u>	<u>\$ (546,601)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries	\$ 1,001,438	\$ 377,717	\$ (623,721)	Finding 1
Benefits	207,190	83,332	(123,858)	Finding 1
Services and supplies	<u>478,572</u>	<u>187,347</u>	<u>(291,225)</u>	Finding 2
Subtotals	1,687,200	648,396	(1,038,804)	
Indirect costs	<u>615,490</u>	<u>101,927</u>	<u>(513,563)</u>	Findings 1, 2, 3
Subtotals, health expenditures	2,302,690	750,323	(1,552,367)	
Less offsetting savings/reimbursements	(1,700,082)	(1,191,968)	508,114	Finding 4
Adjust for health fees exceeding health expenditures	<u>—</u>	<u>441,645</u>	<u>441,645</u>	
Total program costs	<u>\$ 602,608</u>	<u>—</u>	<u>\$ (602,608)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 1,059,065	\$ 420,665	\$ (638,400)	Finding 1
Benefits	230,745	99,163	(131,582)	Finding 1
Services and supplies	<u>504,649</u>	<u>409,570</u>	<u>(95,079)</u>	Finding 2
Subtotals	1,794,459	929,398	(865,061)	
Indirect costs	<u>654,618</u>	<u>160,785</u>	<u>(493,833)</u>	Findings 1, 2, 3
Subtotals, health expenditures	2,449,077	1,090,183	(1,358,894)	
Less offsetting savings/reimbursements	(1,780,929)	(1,430,208)	350,721	Finding 4
Adjust for health fees exceeding health expenditures	<u>—</u>	<u>340,025</u>	<u>340,025</u>	
Total program costs	<u>\$ 668,148</u>	<u>—</u>	<u>\$ (668,148)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Revised Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>Summary: July 1, 1999, through June 30, 2002</u>				
Salaries	\$ 3,046,677	\$ 1,130,386	\$ (1,916,291)	Finding 1
Benefits	638,693	251,760	(386,933)	Finding 1
Services and supplies	1,239,854	835,757	(404,097)	Finding 2
Subtotals	4,925,224	2,217,903	(2,707,321)	
Indirect costs	1,796,720	360,200	(1,436,520)	Findings 1, 2, 3
Subtotals, health expenditures	6,721,944	2,578,103	(4,143,841)	
Less offsetting savings/reimbursements	(4,904,587)	(3,794,960)	1,109,627	Finding 4
Adjust for health fees exceeding health expenditures	—	1,216,857	1,216,857	
Total program costs	<u>\$ 1,817,357</u>	—	<u>\$ (1,817,357)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

¹ See the Revised Findings and Recommendations section.

Revised Findings and Recommendations

**FINDING 1—
Overstated salaries
and benefits and
related indirect
costs claimed**

The Foothill-De Anza Community College District overstated employee salaries and benefits claimed totaling \$2,303,224 for the period of July 1, 1999, through June 30, 2002. For various employees, the district was unable to support costs charged to the mandated program or provide evidence that the employees performed mandate-related activities. The related indirect cost, based on the 36.48% rate claimed, is \$840,216.

Overstated costs are summarized as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Salaries	\$ (654,170)	\$ (623,721)	\$ (638,400)	\$(1,916,291)
Benefits	(131,493)	(123,858)	(131,582)	(386,933)
Subtotal	(785,663)	(747,579)	(769,982)	(2,303,224)
Related indirect costs	(286,610)	(272,717)	(280,889)	(840,216)
Audit adjustment	<u>\$(1,072,273)</u>	<u>\$(1,020,296)</u>	<u>\$(1,050,871)</u>	<u>\$(3,143,440)</u>

For each fiscal year, the district claimed 15% of total salaries and benefits identified as counseling costs (district account numbers 1-41248 and 1-42248). The district was unable to support the 15% allocation with time logs or time studies documenting actual time spent. In addition, the district was unable to show that counselors performed activities related to the mandated program. A district representative testified that counselors do not spend 15% of their time on crisis or stress counseling, but instead refer students to the health center when personal issues arise.

For each fiscal year, the district also claimed a portion of salary and benefit costs for additional counselors, general assistants, secretaries, clerks, custodians, and other employees. The district was unable to support costs allocated to the mandated program with time logs or time studies and was unable to show that these employees performed activities related to the mandated program.

The parameters and guidelines (section VII – Supporting Data) state that “For auditing purposes, all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.”

The parameters and guidelines (section VI – Claim Preparation), identify the requirements for supporting employee salary and benefit costs claimed. The district must identify the employee and the employee’s classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function. An average number of hours devoted to each function may be claimed if supported by a documented time study.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 2—
Overstated
materials and
supplies costs and
related indirect
costs claimed**

The district overstated materials and supplies claimed totaling \$404,097 for the audit period. The related indirect cost, based on the 36.48% rate claimed, is \$147,415. The overstatement occurred because costs claimed were unallowable mandate program costs or the district was unable to support the amount allocated to the mandate program.

Overstated costs are summarized as follows:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Unallowable program costs	\$ (1,280)	\$(247,125)	\$ (45,380)	\$(293,785)
No support for cost allocation	(16,513)	(44,100)	(49,699)	(110,312)
Total unallowable costs	(17,793)	(291,225)	(95,079)	(404,097)
Related indirect costs	(6,491)	(106,239)	(34,685)	(147,415)
Audit adjustment	<u>\$ (24,284)</u>	<u>\$(397,464)</u>	<u>\$(129,764)</u>	<u>\$(551,512)</u>

Unallowable program costs included a bad debt reserve for uncollected student health fees, a Health Fees Reserve account claimed in error, and various expenditures unrelated to health services required under the mandate. In addition, the district was unable to support the allocation of counseling costs (district account numbers 1-41248 and 1-42248, totaling \$50,312) and student accident insurance costs (\$60,000) to the mandate program. The student accident insurance policy included unallowable sports accident coverage.

The parameters and guidelines (section VIII – Offsetting Saving and Other Reimbursements) state that student health fees authorized by the Education Code must be deducted from costs claimed. Uncollected student health fees may not be claimed as an expenditure or deducted from health fees authorized. The parameters and guidelines (section VI. B.2 – Claim Preparation, Services and Supplies) also state that only materials and supplies expenditures that can be identified as a direct cost of the mandate can be claimed, and all costs claimed must be traceable to source documents that show evidence of the validity of such costs. Further, Education Code section 76355, subdivision (d), states that ambulance services and athletic insurance are not authorized expenditures.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 3—
Overstated indirect
cost rate claimed**

The district overstated the indirect cost rate, and thus overstated indirect costs by \$448,889 for the audit period.

The district claimed indirect costs based on an indirect cost rate proposal (ICRP) prepared by an outside consultant using FY 1998-99 district costs. The district did not develop indirect cost rates based on costs incurred in the fiscal years within the audit period. In addition, the district did not obtain federal approval for its ICRP. For the audit period, the district claimed a 36.48% indirect cost rate.

During audit fieldwork, the district submitted revised ICRPs for each fiscal year within the audit period. The district prepared the revised ICRPs using the methodology allowed by the SCO claiming instructions. The indirect cost rates resulting from the revised ICRPs did not support the indirect cost rate claimed. The district’s revised ICRPs supported indirect cost rates of 15.23% for FY 1999-2000, 15.72% for FY 2000-01, and 17.30% for FY 2001-02. Consequently, claimed indirect cost rates were overstated by 21.25% in FY 1999-2000, 20.76% in FY 2000-01, and 19.18% in FY 2001-02.

Overstated indirect costs rate had the following effect:

	Fiscal Year			Total
	1999-2000	2000-01	2001-02	
Allowable costs claimed	\$ 640,109	\$ 648,396	\$ 929,398	
Times unsupported indirect cost rate	21.25%	20.76%	19.18%	
Audit adjustment	<u>\$ (136,023)</u>	<u>\$ (134,607)</u>	<u>\$ (178,259)</u>	<u>\$ (448,889)</u>

The parameters and guidelines (section VI. B.3 – Claim Preparation-Allowable Overhead Cost) state that indirect costs may be claimed in the manner described in SCO’s claiming instructions. SCO’s claiming instructions state that community college districts using an ICRP prepared in accordance with Office of Management and Budget (OMB) Circular A-21 must obtain federal approval of the ICRP. In addition, the ICRP must be prepared from the same fiscal year in which the costs were incurred. Alternately, the SCO’s claiming instructions allow community college districts to compute an indirect cost rate using Form FAM-29C. Form FAM-29C is based on total expenditures as reported in California Community Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311).

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

**FINDING 4—
Understated
authorized health
fee revenues
claimed**

Authorized health fee revenues reported by the district were overstated by \$1,109,627 for the audit period. Authorized revenues reported were overstated primarily because the district overstated district enrollment and understated the number of enrolled students who were exempt from health fees. In addition, the district overstated the per student health fee for FY 2000-01. The district claimed \$9 per student; however, the authorized fee for FY 2000-01 was \$8 per student.

The district’s Institutional Research Office provided student enrollment data for each fiscal year within the audit period. Enrollment data provided disclosed differences between reported and actual gross student enrollment. In addition, Board of Governors Grant (BOGG) waiver dates disclosed material differences between actual and reported health fee exemptions. District representatives stated that enrollment data originally reported was overstated based on errors in extracting enrollment data. District representatives were unable to explain the difference between actual and reported health fee exemptions.

The audit adjustments for health fee revenues are calculated as follows:

	Fiscal Year 1999-2000		
	Claimed	Allowable	Adjustment
Student enrollment	192,837	165,930	26,907
Less allowable health fee exemptions	(14,890)	(19,332)	4,442
Subtotals	177,947	146,598	31,349
Times authorized student health fee	\$ 8	\$ 8	
Totals	\$1,423,576	\$1,172,784	\$ 250,792
	Fiscal Year 2000-01		
	Claimed	Allowable	Adjustment
Student enrollment	203,388	168,131	35,257
Less allowable health fee exemptions	(14,490)	(19,135)	4,645
Subtotals	188,898	148,996	39,902
Times authorized student health fee	\$ 9	\$ 8	
Totals	\$1,700,082	\$1,191,968	\$ 508,114
	Fiscal Year 2001-02		
	Claimed	Allowable	Adjustment
Student enrollment	212,246	178,134	34,112
Less allowable health fee exemptions	(14,365)	(19,222)	4,857
Subtotals	197,881	158,912	38,969
Times authorized student health fee	\$ 9	\$ 9	
Totals	\$1,780,929	\$1,430,208	\$ 350,721

Mandated costs do not include costs that are reimbursable from authorized health service fees. Government Code section 17514 states that “costs mandated by the state” means any increased costs that a school district is required to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, Government Code section 17556 states that the Commission on State Mandates shall not find costs mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

The parameters and guidelines (section VIII – Offsetting Savings and Other Reimbursements) state that health fees authorized by the Education Code must be deducted from costs claimed. Education Code section 76355, subdivision (c) states that health fees are authorized for all students except those students who: (1) depend exclusively on prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that claimed costs include only eligible costs, are based on actual costs, and are properly supported.

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