

FOOTHILL-DE ANZA COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and
Chapter 1118, Statutes of 1987

July 1, 2009, through June 30, 2012



BETTY T. YEE
California State Controller

October 2015



BETTY T. YEE
California State Controller

October 5, 2015

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

Dear Ms. Cheng:

The State Controller's Office audited the costs claimed by the Foothill-De Anza Community College District for 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, 2009, through June 30, 2012.

The district claimed \$3,776,897 for the mandated program. Our audit found that \$3,318,994 is allowable (\$3,328,994 less a \$10,000 penalty for filing a late claim) and \$457,903 is unallowable. The costs are unallowable because the district overstated eligible salaries, benefits, and materials and supplies; understated allowable indirect costs; overstated authorized health service fees; and overstated offsetting reimbursements. The State paid the district \$2,000. The State will pay allowable costs claimed that exceed the amount paid, totaling \$3,316,994, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission). The IRC must be filed within three years following the date of this report. You may obtain IRC information at the Commission's website at www.csm.ca.gov/docs/IRCForm.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Kevin McElroy, Vice Chancellor, Business Services
Foothill-De Anza Community College District
Hector Quinonez, Executive Director
Fiscal Services
Foothill-De Anza Community College District
Joni Hayes Lamprey, Director
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Foothill-De Anza Community College District for 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, 2009, through June 30, 2012.

The district claimed \$3,776,897 for the mandated program. Our audit found that \$3,318,994 is allowable (\$3,328,994 less a \$10,000 penalty for filing a late claim) and \$457,903 is unallowable. The costs are unallowable because the district overstated eligible salaries, benefits, and materials and supplies; understated allowable indirect costs; overstated authorized health service fees; and overstated offsetting reimbursements. The State paid the district \$2,000. The State will pay allowable costs claimed that exceed the amount paid, totaling \$3,316,994, contingent upon available appropriations.

Background

Chapter 1, Statutes of 1984, Second Extraordinary Session, repealed Education Code section 72246 which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating 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 the community college districts' authority to charge a health service fee as specified.

Chapter 1118, Statutes of 1987, amended Education Code section 72246 (subsequently renumbered as section 76355 by Chapter 8, Statutes of 1993). The law requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year for FY 1987-88 and for each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (Commission) determined that Chapter 1, Statutes of 1984, Second Extraordinary Session, imposed a "new program" on 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 for 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 program's parameters and guidelines establish the State mandate and define the reimbursement criteria. The Commission adopted the parameters and guidelines on August 27, 1987, and amended them on May 25, 1989, and January 29, 2010. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist community college districts in claiming mandated program reimbursable costs.

Objectives, 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, 2009, through June 30, 2012.

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 mandated activities.
- Tested transactions selected through auditor judgement for the relevant cost elements.

Conclusion

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

For the audit period, the Foothill-De Anza Community College District claimed \$3,776,897 for costs of the Health Fee Elimination Program. Our audit found that \$3,318,994 is allowable (\$3,328,994 less a \$10,000 penalty for filing a late claim) and \$457,903 is unallowable.

The State paid the district \$2,000. Our audit found that \$3,318,994 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$3,316,994, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft report on August 10, 2015. Kevin McElroy, Vice Chancellor, Business Services, responded by letter dated August 17, 2015 (Attachment), agreeing with the audit results for Finding 1 and Finding 4, partially agreeing with the audit results for Finding 2, and not disputing the audit results for Finding 3 and Finding 5 at this time. Based on the district's response to our draft audit report for Finding 2, total allowable costs increased by \$10,022, from \$3,308,972 to \$3,318,994. For FY 2011-12, allowable costs exceeded costs claimed by \$446,107. However, pursuant to Government Code section 17568, we limited total allowable costs for that year to total claimed costs (see footnote 2 in Schedule 1 for more information). This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of 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, CPA
Chief, Division of Audits

October 5, 2015

Schedule— Summary of Program Costs July 1, 2009, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Salaries and benefits	\$ 2,028,523	\$ 1,854,051	\$ (174,472)	Finding 1
Materials and supplies	649,332	603,099	(46,233)	Finding 2
Less cost of providing current fiscal year services in excess of FY 1986-87	<u>(2,200)</u>	<u>(2,200)</u>	<u>-</u>	
Total direct costs	2,675,655	2,454,950	(220,705)	
Indirect costs	<u>1,001,482</u>	<u>879,376</u>	<u>(122,106)</u>	Finding 3
Total direct and indirect costs	3,677,137	3,334,326	(342,811)	
Less authorized health service fees	(2,118,816)	(2,080,526)	38,290	Finding 4
Less offsetting reimbursements	<u>(135,380)</u>	<u>(144,360)</u>	<u>(8,980)</u>	Finding 5
Subtotal	1,422,941	1,109,440	(313,501)	
Less late filing penalty ³	<u>-</u>	<u>(10,000)</u>	<u>(10,000)</u>	
Total program costs	<u>\$ 1,422,941</u>	1,099,440	<u>\$ (323,501)</u>	
Less amount paid by the State		<u>-</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,099,440</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Salaries and benefits	\$ 1,825,324	\$ 1,756,542	\$ (68,782)	Finding 1
Materials and supplies	648,814	630,493	(18,321)	Finding 2
Less cost of providing current fiscal year services in excess of FY 1986-87	<u>(50)</u>	<u>(50)</u>	<u>-</u>	
Total direct costs	2,474,088	2,386,985	(87,103)	
Indirect costs	<u>896,599</u>	<u>905,322</u>	<u>8,723</u>	Finding 3
Total direct and indirect costs	3,370,687	3,292,307	(78,380)	
Less authorized health service fees	(1,955,814)	(1,990,534)	(34,720)	Finding 4
Less offsetting reimbursements	<u>(92,755)</u>	<u>(114,057)</u>	<u>(21,302)</u>	Finding 5
Total program costs	<u>\$ 1,322,118</u>	1,187,716	<u>\$ (134,402)</u>	
Less amount paid by the State		<u>(1,000)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,186,716</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Salaries and benefits	\$ 1,675,353	\$ 1,887,273	\$ 211,920	Finding 1
Materials and supplies	693,282	666,279	(27,003)	Finding 2
Total direct costs	2,368,635	2,553,552	184,917	
Indirect costs	889,948	1,016,297	126,349	Finding 3
Total direct and indirect costs	3,258,583	3,569,849	311,266	
Less authorized health service fees	(2,061,150)	(1,995,314)	65,836	Finding 4
Less offsetting reimbursements	(165,595)	(96,590)	69,005	Finding 5
Subtotal	1,031,838	1,477,945	446,107	
Less allowable costs that exceed costs claimed ²	-	(446,107)	(446,107)	
Total program costs	<u>1,031,838</u>	1,031,838	-	
Less amount paid by the State		(1,000)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,030,838</u>		
<u>Summary: July 1, 2009, through June 30, 2012</u>				
Direct costs:				
Salaries and benefits	\$ 5,529,200	\$ 5,497,866	\$ (31,334)	
Materials and supplies	1,991,428	1,899,871	(91,557)	
Less cost of providing current fiscal year services in excess of FY 1986-87	(2,250)	(2,250)	-	
Total direct costs	7,518,378	7,395,487	(122,891)	
Indirect costs	2,788,029	2,800,995	12,966	
Total direct and indirect costs	10,306,407	10,196,482	(109,925)	
Less authorized health service fees	(6,135,780)	(6,066,374)	69,406	
Less offsetting reimbursements	(393,730)	(355,007)	38,723	
Subtotal	3,776,897	3,775,101	(1,796)	
Less allowable costs that exceed costs claimed ²	-	(446,107)	(446,107)	
Less late filing penalty ³	-	(10,000)	(10,000)	
Total program costs	<u>\$ 3,776,897</u>	\$ 3,318,994	<u>\$ (457,903)</u>	
Less amount paid by the State		(2,000)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 3,316,994</u>		

¹ See the Findings and Recommendations section.

² Government Code section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2011-12.

³ The district filed its FY 2009-10 annual reimbursement claim after the due date specified in Government Code section 17560. Pursuant to Government Code section 17568, the State assessed a late filing penalty equal to 10% of allowable costs, not to exceed \$10,000 (for claims filed on or after August 24, 2007).

Findings and Recommendations

**FINDING 1—
Overstated salaries
and benefits**

The district claimed \$5,529,200 in salaries and benefits during the audit period. We found that \$5,497,866 is allowable and \$31,334 is unallowable. The district claimed ineligible costs of \$157,545 and understated counseling activities costs of \$126,211.

The following table summarizes the audit adjustment for salaries and benefits by fiscal year:

	Fiscal Year			Total
	2009-10	2010-11	2011-12	
Salaries and benefits:				
Ineligible costs	\$ (114,087)	\$ (36,792)	\$ (6,666)	\$ (157,545)
Understated costs	(60,385)	(31,990)	218,586	126,211
Audit adjustment, salaries and benefits	<u>\$ (174,472)</u>	<u>\$ (68,782)</u>	<u>\$ 211,920</u>	<u>\$ (31,334)</u>

Ineligible Costs

The district claimed costs totaling \$157,545 for certain programs that are identified by specific fund and organization codes within its accounting system. The costs for these codes are not related to the mandated program.

The following table summarizes the ineligible costs by fiscal year:

	Fund Code	Org. Code	Fiscal Year			Total
			2009-10	2010-11	2011-12	
Salaries and benefits:						
OTI staff support - salaries	115253	237006	(78,995)	(26,067)	-	(105,062)
OTI staff support - benefits	115253	237006	(35,092)	(10,342)	-	(45,434)
Child development center - salaries	115273	213003	-	(348)	-	(348)
Child development center - benefits	115273	213003	-	(35)	-	(35)
Allied health sciences - salaries	114000	141011	-	-	(5,917)	(5,917)
Allied health sciences - benefits	114000	141011	-	-	(749)	(749)
Totals - unallowable salaries and benefits			<u>\$ (114,087)</u>	<u>\$ (36,792)</u>	<u>\$ (6,666)</u>	<u>\$ (157,545)</u>

Understated Costs

The district claimed salaries and benefits totaling \$1,665,717 (\$665,950 for fiscal year [FY] 2009-10, \$574,836 for FY 2010-11, and \$424,931 for FY 2011-12) for time spent by district counselors performing mandate-related activities. We found that the district understated allowable costs by \$126,211 (understated by \$218,586 for FY 2011-12 and overstated by \$92,375 for FY 2009-10 and FY 2010-11).

A small portion of the counseling costs claimed were based in part on a time study that the district conducted in 2010. The remainder of the counseling costs claimed were based on estimates of district counselors spending 5% or 10% of their time on mandate-related activities. However, these estimates were not supported with source documentation indicating the services provided nor the amount of time spent counseling students. Therefore, these costs were unallowable as claimed.

As already noted, the district conducted a time study during the winter quarter of 2010 to identify actual mandate-related counseling costs. The district’s time study supported that the percentage of time spent performing mandate-related counseling activities was 10.94% for De Anza College and 6.82% for Foothill College. We calculated allowable costs by applying the time study percentages to the general counselors’ annual salary and benefit costs for each fiscal year of the audit period. The district provided the annual salary and benefit information for this calculation.

The following table shows the calculation of allowable counseling costs based on the district’s time study results:

	Fiscal Year			Total
	2009-10	2010-11	2011-12	
<u>De Anza College:</u>				
Total counseling-related salaries and benefits	\$ 3,982,888	\$ 3,198,086	\$ 4,161,002	
Mandate-related percentage from winter quarter 2010 time study	x 10.94%	x 10.94%	x 10.94%	
Allowable salaries and benefits (A)	<u>435,728</u>	<u>349,871</u>	<u>455,214</u>	
<u>Foothill College:</u>				
Total counseling-related salaries and benefits	2,490,279	2,829,540	2,761,047	
Mandate-related percentage from winter quarter 2010 time study	x 6.82%	x 6.82%	x 6.82%	
Allowable salaries and benefits (B)	<u>169,837</u>	<u>192,975</u>	<u>188,303</u>	
Total allowable counseling-related salaries and benefits ((A) + (B))	605,565	542,846	643,517	1,791,928
Less claimed counseling-related salaries and benefits	<u>(665,950)</u>	<u>(574,836)</u>	<u>(424,931)</u>	<u>(1,665,717)</u>
Audit adjustment, counseling-related salaries and benefits	<u>\$ (60,385)</u>	<u>\$ (31,990)</u>	<u>\$ 218,586</u>	<u>\$ 126,211</u>

The program’s parameters and guidelines (section V- Reimbursable Costs) state:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

For salaries and benefits specifically, the parameters and guidelines (section VI.B.1) state:

Identify the employee(s), show the classification of the employee(s) involved, describe the mandated functions performed and specify the actual number of hours devoted to each function, the productive hourly rate, and the related benefits. The 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 17581.6, 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.

District's Response

The draft report states that the District claimed \$5,529,200 in salaries and benefits during the three-year audit period and that \$5,497,866 is allowable and \$31,334 is unallowable, about a one-half of one percent difference.

Unallowable allied health sciences costs

The District included in its annual claims salary and benefits cost totaling \$157,545 for certain programs which were appropriately located in other funds and organization codes within its accounting system for student services purposes for state and financial accounting reporting. However, these program costs should not have been included in the mandate claims since they do not relate to the mandated student health services. The District agrees with the adjustment.

Understated counseling costs

The District claimed salaries and benefits totaling \$1,665,717 for the audit period for the time spent by counselors in several departments and locations performing mandate-related activities. The audit determined \$1,791,928 was allowable and that the District understated allowable costs by \$126,211. The claimed mandate-related time was based on four different allocations, 10% and 5% for some counselors at both colleges, and specifically 10.94% for some De Anza College and 6.82% for Foothill College counselors. The specific college rates of 10.94% and 6.82% are supported by a 2010 time study, but the 10% and 5% general allocations were not, although the general rates turned out to be similar to the specific time study rates. The audit utilized the specific rates in lieu of the general rates, thus increasing the allowable cost by about seven percent. The District agrees with the adjustment.

SCO's Comments

The district agrees with the audit adjustment.

**FINDING 2—
Overstated materials
and supplies**

The district claimed \$1,991,428 for materials and supplies during the audit period. We found that \$1,899,871 is allowable and \$91,557 is unallowable. The district claimed ineligible costs of \$104,438, claimed unsupported costs of \$2,745, and understated student insurance costs of \$15,626.

The following table summarizes the audit adjustment for materials and supplies by fiscal year:

	Fiscal Year			Total
	2009-10	2010-11	2011-12	
Materials and supplies:				
Ineligible non-program related costs	\$ (32,043)	\$ (23,333)	\$ (11,503)	\$ (66,879)
Ineligible food, decorations, promotional items, rentals, team development activities	(14,190)	(8,231)	(15,138)	(37,559)
Unsupported costs	-	-	(2,745)	(2,745)
Understated student insurance	-	13,243	2,383	15,626
Audit adjustment	<u>\$ (46,233)</u>	<u>\$ (18,321)</u>	<u>\$ (27,003)</u>	<u>\$ (91,557)</u>

Ineligible Costs

The district claimed ineligible costs totaling \$104,438 during the audit period, consisting of \$66,879 for certain district programs and \$37,559 for food, promotional items, and training.

The district claimed ineligible costs totaling \$66,879 for certain programs that are identified by specific fund and organization codes within its accounting system. During the audit, a district representative identified specific fund and organization codes not related to the mandated program, although the district included costs from such funds and organizations in its claims for the audit period. Therefore, these costs are unallowable.

The following table summarizes the unallowable costs by fiscal year:

	Fund Code	Org. Code	Fiscal Year			Total
			2009-10	2010-11	2011-12	
Facility rentals	114000	124041	-	(1,070)		(1,070)
Diversity support	114000	130031	-	-	(300)	(300)
Allied health sciences	114000	141011	(1,500)	-	(186)	(1,686)
Faculty and staff	114000	150001	-	(7)		(7)
Biological & health sci div office	114001	141001	(151)	650	(1,200)	(701)
Allied health sciences	114001	141011	(18,324)	(13,527)	(9,817)	(41,668)
FH MAA funds	115146	131171	(6,374)	(3,540)	-	(9,914)
OTI staff support	115253	237006	(5,694)	(5,839)	-	(11,533)
Audit adjustment, non-program related materials and supplies			<u>\$ (32,043)</u>	<u>\$ (23,333)</u>	<u>\$ (11,503)</u>	<u>\$ (66,879)</u>

The district also claimed ineligible costs totaling \$37,559 during the audit period for food and promotional items at various promotional events and training activities (e.g., breakfast for volunteers at H1N1 campaign, breakfast/lunch buffet at the Positive Body Awareness event), decorations (e.g., ribbons), various promotional items (e.g., t-shirts, buttons, whistles, etc.), rock-climbing wall rental, team development activities, and a health services retreat. However, the district did not provide any documentation or other evidence that these costs were incurred as a direct result of the mandated program providing health services to students or that such items were provided by the district in the base year of the mandated program.

Government Code section 17514 states that “costs mandated by the state” means any increased cost that the district is *required* to incur. The costs for food and promotional items are not costs that the district is required to incur to maintain health services at the level provided in the FY 1986-87 base year. Government Code section 17561, subdivision (d)(2)(B), states that the Controller may reduce any excessive or unreasonable claim.

Unsupported Costs

The district did not provide any supporting documentation for claimed costs totaling \$2,745. The district did not provide invoices or receipts for costs incurred with various vendors during the audit period.

Understated Costs

The district understated allowable student insurance costs totaling \$15,626. The district provided documentation from its insurance company that identified the paid claims report for FY 2010-11 and FY 2011-12. Therefore, we calculated an allowable percentage of student base experience versus total base experience for FY 2010-11 and FY 2011-12. To calculate allowable student insurance costs for each fiscal year, we applied the allowable percentage to the total accident and catastrophic insurance premiums. These premiums include costs for both students and intercollegiate athletes.

The following table shows the calculation of the allowable percentage of student base experience versus total base experience:

	(A)	(B)	(C)
	Student Base	Total Base	Allowable
	Experience	Experience	Percentage
			((A) ÷ (B))
FY 2010-11	\$ 58,658	\$ 268,734	21.83%
FY 2011-12	44,846	239,459	18.73%

The following table shows the calculation of allowable student insurance costs and the resulting audit adjustment for student insurance:

	Fiscal Year		Total
	2010-11	2011-12	
Accident premium:			
Accident premium (students + athletes)	\$ 174,000	\$ 351,344	
Allowable percentage	× 21.83%	× 18.73%	
Allowable accident premium (A)	<u>37,984</u>	<u>65,807</u>	103,791
Catastrophic premium:			
Catastrophic premium (students + athletes)	5,766	12,686	
Allowable percentage	× 21.83%	× 18.73%	
Allowable catastrophic premium (B)	<u>1,259</u>	<u>2,376</u>	3,635
Total allowable student insurance costs ((A) + (B))	39,243	68,183	107,426
Less: claimed costs	<u>(26,000)</u>	<u>(65,800)</u>	<u>(91,800)</u>
Audit adjustment, student insurance	<u>\$ 13,243</u>	<u>\$ 2,383</u>	<u>\$ 15,626</u>

The parameters and guidelines state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheet, invoices, and receipts.

Education Code section 76355, subdivision (d)(2), states that authorized expenditures shall not include athletic insurance.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, 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.

District's Response

The District claimed \$1,991,428 for materials and supplies during the audit period. The audit determined that \$1,887,720 is allowable and \$103,708 is unallowable (about five percent).

Unallowable allied health sciences costs

Similar to Finding 1, the District included in its annual claims costs totaling \$66,879 for materials and supplies for certain programs which were appropriately located in other funds and organization codes within its accounting system for student services purposes for state and financial accounting reporting. However, these program costs should not have

been included in the mandate claims since they do not relate to the mandated student health services. The District agrees with the adjustment.

Promotional material

The District claimed \$37,559 during the audit period for food and promotional items for various health fair events and training activities. The audit determined, with or without supporting documentation, that these costs were not a direct result of the mandated program providing health services to students or that such items were provided by the District in the base-year of the mandated program.

The District does not agree with the audit report's assertion that the costs incurred by the District to purchase food for health fair volunteers, promotional items, and equipment rental costs are unallowable costs because these are not expenditures the District is required to make in order to maintain the base-year level of health services. The draft audit report cites Government Code section 17514 as a reason to disallow the health fair costs as *not required*. This conclusion directly contradicts the parameters and guidelines which include health fairs as a reimbursable activity in Section V, and Title 5, section 54702 (d) (1), that includes "health education and promotion" as an activity that may be included in the student health services program for which the fee is charged. Since the parameters and guidelines and Board of Governors have determined that health fair and promotional activities are reimbursable, and since the District provided a health fair in the base-year 1986-87, then the health fairs must be continued pursuant to Education Code section 76355.

The draft audit report concludes that the claimed health fair costs are not required, thus any health fair cost would be ostensibly excessive. The conclusion is subjective because the Controller has not cited a published standard for the type and scope of allowable health fair activity costs. The audit report makes no factual claims to support the adjustment on the grounds that the claimed costs were excessive. Absent a fact-based finding that the promotional items were too expensive, or some similar finding, there is no basis for the adjustment on the grounds that the claimed costs were excessive. Because there is no legal question that the health fair and health promotion activities are appropriate, and no factual evidence that the costs were excessive, the adjustment should be withdrawn.

Unsupported costs

The District was unable to provide specific supporting documentation (e.g., invoices) for six expenditures totaling \$14,885. However, the District accounts payable ledgers state the name of the vendors which of itself is sufficient to determine the nature of the transaction. The auditor may have also allowed the same vendor when an invoice was available for another purchase. The District believes the disallowances are unreasonable given the nature of the vendor and that payments to the same or similar have been allowed.

Student Insurance

For purposes of mandate cost reporting, each year the District calculates allowable student insurance costs by applying an experience factor to the total accident and catastrophic insurance premiums. The audit calculated a different loss percentage and determined that the District understated allowable student insurance costs totaling \$15,615. The District agrees with the adjustment.

SCO's Comments

In its response to the draft audit report, the district accepts the audit adjustment for unallowable allied health sciences costs and understated student insurance costs. However, the district disputes the audit adjustment related to promotional materials and unsupported costs.

We decreased the audit adjustment for unsupported costs by \$12,140, from \$14,885 to \$2,745, based on the district's response, as noted below. Our comments are in the same order presented by the district.

Unallowable allied health sciences costs

The district agrees with the audit adjustment.

Promotional material

The district believes that our audit adjustment contradicts the parameters and guidelines. We disagree. Government Code section 17561 states that the SCO may reduce any excessive or unreasonable claim. There is a direct correlation between Government Code section 17514 and 17561. The costs are not reimbursable simply because the district states that the costs are associated with a reimbursable activity. Although the parameters and guidelines do allow costs for conducting health talks or fairs, that alone does not classify any related costs as required costs.

The parameters and guidelines identify the reimbursable activities of health talks/fairs for the purpose of providing information on sexually transmitted diseases, drugs, AIDS, child abuse, birth control/family planning, and smoking cessation. However, the district is not required to purchase food, promotional items, and equipment rental costs to complete the activity of providing health information to those who inquire. Therefore, these are not costs that the district is *required* to incur (Government Code section 17514), nor are the costs reasonable (Government Code section 17561).

Even if the purchase of food, promotional items, and equipment rentals are related to the district's health program, the district did not provide any supporting documentation or evidence showing that these costs were incurred as a direct result of the mandate to provide health services to students, or were provided by the district in the base year. The parameters and guidelines require that actual costs claimed must be traceable and supported by source documents that show the validity of such costs, including documentation for the fiscal year 1986-87 program to substantiate a maintenance of effort. Therefore, our audit adjustment remains unchanged.

Unsupported costs

Based on the district’s response to our draft audit report, we decreased the audit adjustment for unsupported costs by \$12,140. For three of the six vendors (Sanofi Pasteur, Channing Bete, and Warner Chilcott) that were unsupported, we verified supporting documentation that we reviewed for other purchases from these vendors. In addition, we verified that these vendors were health-related businesses (pharmaceuticals and health publishing) by reviewing their websites. Therefore, we determined that the unsupported costs for these three specific vendors should be allowable. We also determined that unsupported costs totaling \$661 for a missing invoice from Office Depot is allowable due to reasonableness and the immateriality of the amount claimed.

For FY 2011-12, two unsupported expenditures remain unallowable. These two transactions appear to be related to team development activities and/or consultant costs. The parameters and guidelines state:

Actual costs must be traceable and supported by *source documents* [emphasis added] that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. . . . Source documents may include, but are not limited to. . . . *invoices and receipts* [emphasis added].

Student insurance

The district agrees with the audit adjustment.

**FINDING 3—
Understated indirect costs**

The district claimed indirect costs totaling \$2,788,029 during the audit period. We found that the district understated indirect costs by \$12,966. The costs were understated because the district incorrectly calculated its indirect cost rates using the FAM-29C methodology and misstated salaries and benefits for the audit period.

The following table summarizes the audit adjustment by fiscal year:

	Fiscal Year			Total
	2009-10	2010-11	2011-12	
Allowable salaries and benefits	\$ 1,854,051	\$ 1,756,542	\$ 1,887,273	
Allowable indirect cost rate	x 47.43%	x 51.54%	x 53.85%	
Allowable indirect costs	879,376	905,322	1,016,297	
Indirect costs claimed	(1,001,482)	(896,599)	(889,948)	
Audit adjustment	\$ (122,106)	\$ 8,723	\$ 126,349	\$ 12,966

Indirect Cost Rates Claimed

The district claimed indirect costs based on indirect cost rates that it prepared using the SCO's FAM-29C methodology. However, the district did not allocate direct and indirect costs in accordance with the SCO's claiming instructions. The district incorrectly identified community relations costs (account 6710) as indirect costs. The district also calculated each fiscal year's indirect cost rate based on actual costs reported in the district's California Community Colleges Annual Financial Budget Report Expenditures by Activity Report (CCFS-311) from the preceding fiscal year rather than the current fiscal year. In addition, the district reported an incorrect amount for depreciation expense in its indirect cost rate calculation for each fiscal year.

Recalculated Indirect Cost Rates

For each fiscal year of the audit period, we calculated allowable indirect cost rates using the SCO's FAM-29C methodology and the pertinent year's CCFS-311 report. Our calculations showed that the district overstated its indirect cost rate for FY 2009-10 and understated the rates for FY 2010-11 and FY 2011-12.

The following table summarizes the claimed, allowable and indirect cost rate adjustments by fiscal year:

<u>Fiscal Year</u>	<u>Claimed</u>	<u>Allowable</u>	<u>Audit Adjustment</u>
2009-10	49.37%	47.43%	-1.94%
2010-11	49.12%	51.54%	2.42%
2011-12	53.12%	53.85%	0.73%

The parameters and guidelines state, "Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions." For all fiscal years of the audit period, the SCO's claiming instructions for the Health Fee Elimination Program required the district to claim indirect costs using the SCO's FAM-29C methodology.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, 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.

District's Response

The District claimed indirect costs totaling \$2,788,029 during the audit period. The audit recalculated the rates and found that \$2,800,995 is allowable, an understatement of indirect costs by \$12,966 (one-half of one percent).

<u>Fiscal Year</u> <u>Claim</u>	<u>Reported</u> <u>Rate</u>	<u>Audited</u> <u>Rate</u>	<u>Difference</u>
FY 2009-10	49.37%	47.43%	(1.94%)
FY 2010-11	49.12%	51.54%	2.42%
FY 2011-12	53.12%	53.85%	0.73%

The District used the same method, Controller Form 29 FAM-C, as the Controller. Both the Controller and the District used the CCFS-311 state annual financial report as the source of the allocable costs. However, because of the need to timely file the annual claims, the District consistently used the *prior year* CCFS-311, whereas the auditor was able to use the *current year* CCFS-311 and current District audited financial statement depreciation expense (which is not always available to the District at time of claim preparation). The overall difference from year to year is minor. The District does not object to this adjustment at this time.

SCO’s Comments

The district does not dispute the audit finding.

**FINDING 4—
Overstated authorized
health service fees**

The district overstated authorized health service fees by \$69,406 for the audit period (overstated by \$104,126 and understated by \$34,720). The fees were misstated because the district misstated student enrollment data and its authorized health fee rate.

Enrollment Data

The district calculated its authorized health service fees by using student enrollment data that it obtained from the California Community Colleges Chancellor’s Office (CCCCO) Management Information Systems (MIS) (also known as “DataMart”) for FY 2009-10 and FY 2011-12. However, enrollment figures from DataMart do not exclude duplicate entries for students who attend more than one of the district’s colleges. DataMart figures also do not include enrollment recorded under the CCCCCO’s MIS data element STD7, codes D, E, and G. In addition, the district understated the number of apprenticeship program enrollees for FY 2009-10 and overstated the number of apprenticeship program enrollees for FY 2010-11.

We obtained the applicable student enrollment and apprenticeship program enrollee data from the CCCCCO. The CCCCCO identified enrollment and apprenticeship program enrollee data from its Management Information System (MIS) based on student data that the district reported. The CCCCCO identified the district’s enrollment based on its MIS data element STD7, codes A through G. The CCCCCO eliminated any duplicate students based on their Social Security numbers. From the district enrollment, the CCCCCO identified the number of apprenticeship program enrollees based on its data element SB23, code 1. CCCCCO data element and code definitions are available at:

<http://extranet.cccco.edu/Divisions/TechResearchInfoSys/MIS/DED.aspx>.

The district did not identify any students that it excluded from the health service fee pursuant to Education Code section 76355, subdivision (c)(1).

We found that the district overstated net student enrollment by 2,735 students for FY 2009-10 and understated net student enrollment by 2,480 students for FY 2010-11. The district correctly reported net student enrollment for FY 2011-12.

Health Service Fees

The district inadvertently reported a \$1 increase in health fees charged to students (\$15 instead of \$14) in its claim for FY 2011-12 applicable to the summer and fall quarter of that fiscal year.

The CCCCCO identified the fees authorized by Education Code section 76355, subdivision (a). The following table summarizes the authorized fees:

Fiscal Year	Authorized Health Fee Rate Per Quarter and Summer Session
2009-10	\$14
2010-11	\$14
2011-12	\$14/\$15*

* The CCCCCO did not notify districts until August 20, 2011, about the increased authorized health service fees applicable to the 2011-12 academic year. Therefore, the fee increase will not be included in our audit calculation until the winter quarter of 2011.

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.

Education Code section 76355, subdivision (c), states that health fees are authorized for all students except those who: (1) depend exclusively on prayer for healing; or (2) are attending a community college under an approved apprenticeship training program.

The following table shows the authorized health service fee calculation and audit adjustment:

	Period				Total
	Summer Session	Fall Quarter	Winter Quarter	Spring Quarter	
Fiscal Year 2009-10:					
Number of enrolled students	33,069	44,005	38,862	37,207	
Less number of apprenticeship program enrollees	(125)	(1,998)	(1,789)	(622)	
Subtotal	32,944	42,007	37,073	36,585	
Authorized health service fee rate	x \$(14)	x \$(14)	x \$(14)	x \$(14)	
Authorized health service fees	\$ (461,216)	\$ (588,098)	\$ (519,022)	\$ (512,190)	\$ (2,080,526)
Less authorized health service fees claimed					2,118,816
Audit adjustment, FY 2009-10					38,290
Fiscal Year 2010-11:					
Number of enrolled students	28,438	41,964	38,105	37,100	
Less number of apprenticeship program enrollees	(12)	(1,521)	(1,427)	(466)	
Subtotal	28,426	40,443	36,678	36,634	
Authorized health service fee rate	x \$(14)	x \$(14)	x \$(14)	x \$(14)	
Authorized health service fees	\$ (397,964)	\$ (566,202)	\$ (513,492)	\$ (512,876)	(1,990,534)
Less authorized health service fees claimed					1,955,814
Audit adjustment, FY 2010-11					(34,720)
Fiscal Year 2011-12:					
Number of enrolled students	26,479	40,580	37,652	35,515	
Less number of apprenticeship program enrollees	(39)	(1,184)	(1,218)	(375)	
Subtotal	26,440	39,396	36,434	35,140	
Authorized health service fee rate	x \$(14)	x \$(14)	x \$(15)	x \$(15)	
Authorized health service fees	\$ (370,160)	\$ (551,544)	\$ (546,510)	\$ (527,100)	(1,995,314)
Less authorized health service fees claimed					2,061,150
Audit adjustment, FY 2011-12					65,836
Total audit adjustment					\$ 69,406

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, 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:

- Deduct authorized health service fees from mandate-related costs claimed. To properly calculate authorized health service fees, we recommend that the district identify the number of enrolled students based on CCCC data element STD7, codes A through G.
- Identify the number of apprenticeship program enrollees based on data elements SB23, code 1, and STD7, codes A through G.
- Eliminate duplicate entries for students who attend more than one college within the district.

- Maintain documentation that identifies the number of students excluded from the health service fee based on Education Code section 76355, subdivision (c)(1). If the district denies health services to any portion of its student population, it should maintain contemporaneous documentation of a district policy that excludes those students from receiving health services and documentation identifying the number of students excluded. The district must also provide documentation that it excluded the same student population from receiving health services during the 1986-87 base year.

District’s Response

The District reported \$6,135,780 in offsetting collectible student health fees. The audit determined that the District overstated authorized health service fees by \$69,406 for the audit period (about one-percent). Student health services fees reduce claimed program costs. The method to calculate the authorized student health service fees collectible was confirmed by a court decision final as of September 2010, and is binding on both the Controller and the claimants. The District has to agree with this method.

SCO’s Comments

The district agrees with the audit finding

**FINDING 5—
Overstated offsetting
reimbursements**

The district overstated offsetting reimbursements by \$38,723 for the audit period (overstated by \$118,449 and understated by \$79,726). The misstatements occurred because the district incorrectly reported inter-fund transfers as revenues and understated various offsetting revenues received for each fiscal year.

The following table summarizes the audit adjustment by fiscal year:

Description	Acct. No.	Fiscal Year			Total
		2009-10	2010-11	2011-12	
Other fees	8885	\$ (33,667)	\$ (59,597)	\$ (75,146)	\$ (168,410)
Other local revenue	8902	(45,072)	(33,158)	(21,444)	(99,674)
Medi-Cal Administrative Activities revenue	8940	(65,621)	(21,302)	-	(86,923)
Total offsetting savings/reimbursements		(144,360)	(114,057)	(96,590)	(355,007)
Less offsetting savings/reimbursements claimed		135,380	92,755	165,595	393,730
Audit adjustment		\$ (8,980)	\$ (21,302)	\$ 69,005	\$ 38,723

For FY 2009-10 and FY 2011-12, the district incorrectly reported revenues of \$28,000 and \$59,022, respectively, related to transfers between the district’s different funds and accounts to pay for employee TB tests, workers’ compensation, and/or backfill salaries and benefits. These transfers represent reimbursements for expenditures incurred and did not represent revenues received by the district.

For FY 2009-10 and FY 2010-11, the district understated revenue received attributable to Medi-Cal Administrative Activities (MAA) totaling \$58,282 (\$36,980 for FY 2009-10 and \$21,302 for FY 2010-11). The district reported MAA revenues totaling \$28,641 for FY 2009-10, although it received \$65,621 for that year. The district did not report any MAA revenues for FY 2010-11, although it received \$21,302 for that year. The understatements occurred because the district deducted reimbursements received for administrative expenses (indirect costs and MAA Coordinator costs) from the net amounts received. However, the district is already reimbursed for indirect costs through the application of its indirect cost rates. Thus, the revenue claimed for the mandated program should not be calculated based on an allocation that includes a deduction for the district office’s indirect costs. Therefore, we recalculated the allowable MAA revenue for FY 2009-10 and the first two quarters of FY 2010-11.

The following table shows that calculations of MAA revenues received:

		(A)	(B)	(C)	(D)	(E)	
		Original amount for available distribution	Add back: 10% indirect - district	Add back: 10% MAA Coordinator (OTI)	Revised amount available for net distribution [A + B + C]	% of total	MAA Revenue Allowed [D × E]
Fiscal Year	Quarter						
2009-10	Q1	52,563.64	7,470.46	7,470.46	67,504.56	0.21297098146171	\$ 14,377
	Q2	26,199.82	4,174.98	4,174.98	34,549.78	0.22305305914315	7,706
	Q3	54,821.89	7,996.49	7,996.49	70,814.87	0.26246249445249	18,586
	Q4	65,397.22	9,318.40	9,318.40	84,034.02	0.29692301905188	24,952
						Total for FY 2009-10	<u>\$ 65,621</u>
2010-11	Q1	29,691.13	4,855.14	4,855.14	39,401.41	0.19389999639623	\$ 7,640
	Q2	31,438.59	5,017.33	5,017.33	41,473.25	0.32940631243322	13,662
						Total for FY 2010-11	<u>\$ 21,302</u>

The district overstated all of the MAA revenues that it reported for FY 2011-12, totaling \$31,427. The MAA revenue that was reported for FY 2011-12 was actually for the first three quarters of FY 2009-10. The district stated that MAA revenues are posted as soon as they are received; however, the individual allocations may be posted later. During the course of the audit, we found that the district had not received any MAA revenue since the second quarter of FY 2010-11.

For FY 2011-12, the district did not report “other local revenue” that its accounting records documented, totaling \$21,444. District representatives indicated that “other local revenue” is attributable to fees that the district charged for various health services that it provided.

The parameters and guidelines state:

Any offsetting savings the claimant experiences as a direct result of this statute must be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, 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 report all mandate-related offsetting reimbursements on its mandated cost claims.

District's Response

Miscellaneous health services revenues, usually clinical services fees, reduce the reimbursable cost of the mandate in addition to the student health service fees. The District reported miscellaneous offsetting savings and other reimbursements in the amount of \$393,730. The audit decreased this amount by \$38,723 for the audit period, which is about a ten percent increase in reimbursable cost.

This is a continuing problem for community college district mandate cost accounting. These revenues were properly reported in the accounting records of the District. However, for purposes of the annual reimbursement claim, but not routine financial accounting, districts must offset these revenues against the student health center program general ledger costs if the labor and materials to implement those programs are located in the student health center cost account. The major source of variance for this audit was the allocation of the Medi-Cal administrative services revenues. The District reported the Medi-Cal payments on a cash received basis, whereas the auditor was able to allocate the amounts to the appropriate fiscal periods due to the passage of time. The District does not object to this adjustment at this time.

SCO's Comments

The district does not dispute the audit finding.

OTHER ISSUES

The district's response included other comments related to the mandated cost claims. The district's response and SCO's comments are presented below.

Limitation of Allowed Audited Costs

District's Response

The draft audit report deducts \$443,989 from the FY 2011-12 findings of "total program costs" as "allowable costs that exceed costs claimed." This issue is not a specific audit finding, but rather the effect of increased audited costs allowed in the other findings. The stated basis for this limitation on allowable costs is Government Code section 17568, cited in footnote 2 on page 5 of the audit report that states, "that the State will not reimburse any claim more than one year after the filing deadline." The State did not pay the annual claim in full or part within one year of the filing deadline, and rarely does so, so that citation does not appear relevant. Section 17568 pertains to the timely filing of an annual claim in order to be eligible for payment, not to the contents of the claim itself.

The District asserts that the Controller's failure to increase the reimbursable mandate costs beyond those which were claimed is an incorrect reduction of total reimbursable costs and an underpayment of reimbursable amounts. The audit report does not cite any Government Code section that prohibits the Controller from reimbursement of *audited* costs in excess of claimed costs. Government Code section 17561(d)(2), states:

“(A) The Controller may audit any of the following:

- (i) Records of any local agency or school district to verify the actual amount of the mandated costs

- (C) The Controller shall adjust the payment to correct for any underpayments or overpayments that occurred in previous fiscal years.”

The use of the word “shall” makes the adjustment of *both* underpayments and overpayments mandatory. Thus, the Controller does not have the discretion to unilaterally determine that it will deny reimbursement for audit adjustments in favor of the State and simply ignore audit adjustment in favor of the claimants. The Controller, therefore, has the obligation to pay claimants any unclaimed allowable mandate cost discovered as the result of an audit.

SCO's Comments

The district believes that the basis we use for limitation on allowable costs, which is Government Code section 17568, relates to the timely filing of an annual claim in order to be eligible for payment, not to the contents of the claim itself. Government Code section 17568 states, “In no case shall a reimbursement claim be paid that is submitted more than one year after the deadline specified in section 17560.” We believe that this section establishes an upper limit as to the amount a claimant can be reimbursed. The fact that the district has incurred a cost mandated by the State is not sufficient in itself for an entitlement to reimbursement. The filing of a claim, within the allotted time frames, detailing the costs actually incurred, entitles the district to reimbursement.

Government Code section 17561, subdivision (d)(2)(B) gives the Controller authority only to reduce claims, not increase or adjust them. In addition, Government Code section 17561, subdivision (d)(2)(C) states, “The Controller shall adjust the payment to correct for any underpayments or overpayments which occurred in previous fiscal years.” We believe this provision is intended to direct the Controller to adjust the payment owing to the claimant based on allowable costs (up to the amount claimed during the statutory period) in consideration of previous payments made to the claimant.

Further, Article XVI, section 6, of the California Constitution prohibits the making of a gift of public funds. We believe that allowing costs not claimed within the time period to file an annual or amended claim would constitute a gift of public funds and, therefore, should be neither allowable nor reimbursable.

Public records request

The district's response included a public records request. The district's response and SCO's comments are as follows:

District's Response

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period to all audit findings. Government Code section 6253, subdivision (c), requires the state agency that is the subject of the request, within 10 days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, please state the estimated date and time when the records will be made available.

SCO's Comments

The SCO responded to the district's request in a separate letter date September 2, 2015.

**Attachment—
District's Response to
Draft Audit Report**



**FOOTHILL-DE ANZA
Community College District**

12345 El Monte Road
Los Altos Hills, CA 94022

August 17, 2015

Mr. Jim L. Spano, Chief
Mandated Costs Audits Bureau
Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Chapter 1, Statutes of 1984, 2nd ex.
Health Fee Elimination Reimbursement Claims
Fiscal Years: 2009-10, 2010-11, and 2011-12

Dear Mr. Spano:

This letter is the response of the Foothill-De Anza Community College District to the draft audit report for the above-referenced program and fiscal years transmitted by the letter from Jeffrey Brownfield, Chief, Division of Audits, State Controller's Office, dated August 10, 2015, and received by the District by e-mail on August 10, 2015.

Finding 1 - Overstated salaries and benefits **<\$31,334>**

The draft report states that the District claimed \$5,529,200 in salaries and benefits during the three-year audit period and that \$5,497,866 is allowable and \$31,334 is unallowable, about a one-half of one percent difference.

Unallowable allied health sciences costs **<\$157,545>**

The District included in its annual claims salary and benefits cost totaling \$157,545 for certain programs which were appropriately located in other funds and organization codes within its accounting system for student services purposes for state and financial accounting reporting. However, these program costs should not have been included in the mandate claims since they do not relate to the mandated student health services. The District agrees with the adjustment.

Understated counseling costs

\$126,211

The District claimed salaries and benefits totaling \$1,665,717 for the audit period for the time spent by counselors in several departments and locations performing mandate-related activities. The audit determined \$1,791,928 was allowable and that the District understated allowable costs by \$126,211. The claimed mandate-related time was based on four different allocations, 10% and 5% for some counselors at both colleges, and specifically 10.94% for some De Anza College and 6.82% for Foothill College counselors. The specific college rates of 10.94% and 6.82% are supported by a 2010 time study, but the 10% and 5% general allocations were not, although the general rates turned out to be similar to the specific time study rates. The audit utilized the specific rates in lieu of the general rates, thus increasing the allowable cost by about seven percent. The District agrees with the adjustment.

Finding 2 - Overstated material and supplies

<\$103,708>

The District claimed \$1,991,428 for materials and supplies during the audit period. The audit determined that \$1,887,720 is allowable and \$103,708 is unallowable (about five percent).

Unallowable allied health sciences costs

<\$66,879>

Similar to Finding 1, the District included in its annual claims costs totaling \$66,879 for materials and supplies for certain programs which were appropriately located in other funds and organization codes within its accounting system for student services purposes for state and financial accounting reporting. However, these program costs should not have been included in the mandate claims since they do not relate to the mandated student health services. The District agrees with the adjustment.

Promotional material

<\$37,559>

The District claimed \$37,559 during the audit period for food and promotional items for various health fair events and training activities. The audit determined, with or without supporting documentation, that these costs were not a direct result of the mandated program providing health services to students or that such items were provided by the District in the base-year of the mandated program.

The District does not agree with the audit report's assertion that the costs incurred by the District to purchase food for health fair volunteers, promotional items, and equipment rental costs are unallowable costs because these are not expenditures the District is required to make in order to maintain the base-year level of health services. The draft audit report cites Government Code Section 17514 as a reason to disallow the health fair costs as *not required*. This conclusion directly contradicts the parameters and guidelines which include health fairs as a reimbursable activity in Section V, and Title 5, Section 54702 (d) (1), that includes "health education and promotion" as an activity that may be included in the student health services program for which the fee is

charged. Since the parameters and guidelines and Board of Governors have determined that health fair and promotional activities are reimbursable, and since the District provided a health fair in the base-year 1986-87, then the health fairs must be continued pursuant to Education Code Section 76355.

The draft audit report concludes that the claimed health fair costs are not required, thus any health fair cost would be ostensibly excessive. The conclusion is subjective because the Controller has not cited a published standard for the type and scope of allowable health fair activity costs. The audit report makes no factual claims to support the adjustment on the grounds that the claimed costs were excessive. Absent a fact-based finding that the promotional items were too expensive, or some similar finding, there is no basis for the adjustment on the grounds that the claimed costs were excessive. Because there is no legal question that the health fair and health promotion activities are appropriate, and no factual evidence that the costs were excessive, the adjustment should be withdrawn.

Unsupported costs

<\$14,885>

The District was unable to provide specific supporting documentation (e.g., invoices) for six expenditures totaling \$14,885. However, the District accounts payable ledgers state the name of the vendors which of itself is sufficient to determine the nature of the transaction. The auditor may have also allowed the same vendor when an invoice was available for another purchase. The District believes the disallowances are unreasonable given the nature of the vendor and that payments to the same or similar have been allowed.

Student Insurance

\$15,615

For purposes of mandate cost reporting, each year the District calculates allowable student insurance costs by applying an experience factor to the total accident and catastrophic insurance premiums. The audit calculated a different loss percentage and determined that the District understated allowable student insurance costs totaling \$15,615. The District agrees with the adjustment.

Finding 3 - Understated indirect costs

\$12,966

The District claimed indirect costs totaling \$2,788,029 during the audit period. The audit recalculated the rates and found that \$2,800,995 is allowable, an understatement of indirect costs by \$12,966 (one-half of one percent).

<u>Fiscal Year Claim</u>	<u>Reported Rate</u>	<u>Audited Rate</u>	<u>Difference</u>
FY 2009-10	49.37%	47.43%	<1.94%>
FY 2010-11	49.12%	51.54%	2.42%
FY 2011-12	53.12%	53.85%	0.73%

The District used the same method, Controller Form 29 FAM-C, as the Controller. Both the Controller and the District used the CCFS-311 state annual financial report as the source of the allocable costs. However, because of the need to timely file the annual claims, the District consistently used the *prior year* CCFS-311, whereas the auditor was able to use the *current year* CCFS-311 and current District audited financial statement depreciation expense (which is not always available to the District at time of claim preparation). The overall difference from year to year is minor. The District does not object to this adjustment at this time.

Finding 4 - Overstated authorized health service fees \$69,406

The District reported \$6,135,780 in offsetting collectible student health fees. The audit determined that the District overstated authorized health service fees by \$69,406 for the audit period (about one-percent). Student health services fees reduce claimed program costs. The method to calculate the authorized student health service fees collectible was confirmed by a court decision final as of September 2010, and is binding on both the Controller and the claimants. The District has to agree with this method.

Finding 5 - Overstated offsetting savings/reimbursements \$38,723

Miscellaneous health services revenues, usually clinical services fees, reduce the reimbursable cost of the mandate in addition to the student health service fees. The District reported miscellaneous offsetting savings and other reimbursements in the amount of \$393,730. The audit decreased this amount by \$38,723 for the audit period, which is about a ten percent increase in reimbursable cost.

This is a continuing problem for community college district mandate cost accounting. These revenues were properly reported in the accounting records of the District. However, for purposes of the annual reimbursement claim, but not routine financial accounting, districts must offset these revenues against the student health center program general ledger costs if the labor and materials to implement those programs are located in the student health center cost account. The major source of variance for this audit was the allocation of the Medi-Cal administrative services revenues. The District reported the Medi-Cal payments on a cash received basis, whereas the auditor was able to allocate the amounts to the appropriate fiscal periods due to the passage of time. The District does not object to this adjustment at this time.

Limitation of Allowed Audited Costs <\$443,989>

The draft audit report deducts \$443,989 from the FY 2011-12 findings of "total program costs" as "allowable costs that exceed costs claimed." This issue is not a specific audit finding, but rather the effect of increased audited costs allowed in the other findings. The stated basis for this limitation on allowable costs is Government Code Section 17568, cited in footnote 2 on page 5 of the audit report that states, "that the State will not reimburse any claim more than one year after the filing deadline." The State did not pay the annual claim in full or part within one year of the filing deadline, and rarely does

so, so that citation does not appear relevant. Section 17568 pertains to the timely filing of an annual claim in order to be eligible for payment, not to the contents of the claim itself.

The District asserts that the Controller's failure to increase the reimbursable mandate costs beyond those which were claimed is an incorrect reduction of total reimbursable costs and an underpayment of reimbursable amounts. The audit report does not cite any Government Code section that prohibits the Controller from reimbursement of *audited* costs in excess of claimed costs. Government Code Section 17561(d)(2), states:

"(A) The Controller may audit any of the following:

- (i) Records of any local agency or school district to verify the actual amount of the mandated costs.
- (C) The Controller shall adjust the payment to correct for any underpayments or overpayments that occurred in previous fiscal years."

The use of the word "shall" makes the adjustment of *both* underpayments and overpayments mandatory. Thus, the Controller does not have the discretion to unilaterally determine that it will deny reimbursement for audit adjustments in favor of the State and simply ignore audit adjustments in favor of the claimants. The Controller, therefore, has the obligation to pay claimants any unclaimed allowable mandate cost discovered as the result of an audit.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period to all audit findings. Government Code section 6253, subdivision (c), requires the state agency that is the subject of the request, within 10 days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the requesting party of that determination and the reasons therefor. Also, as required, when so notifying the District, please state the estimated date and time when the records will be made available.

Sincerely,



Kevin McElroy, Vice Chancellor, Business Services
Foothill-De Anza Community College District

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