

COAST 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, 2000, through June 30, 2002



STEVE WESTLY
California State Controller

March 2004



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California State Controller

March 30, 2004

William M. Vega, Ed.D., Chancellor
Coast Community College District
1370 Adams Avenue
Costa Mesa, CA 92626

Dear Dr. Vega:

The State Controller's Office has completed an audit of the claims filed by Coast 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, 2000, through June 30, 2002.

The district claimed \$673,559 for the mandated program. Our audit disclosed that \$122,835 is allowable and \$550,724 is unallowable. The unallowable costs occurred because the district claimed ineligible costs and understated claimed revenue offsets. The district was paid \$59,430. Allowable costs claimed in excess of the amount paid, totaling \$63,405, will be paid by the State based on available appropriations.

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

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VB/jj

cc: Kimberly Allen
Administrative Director, Fiscal Affairs
Coast Community College District
Ed Monroe, Program Assistant
Fiscal Accountability Section
Chancellor's Office
California Community Colleges
Jeannie Oropeza, Program Budget Manager
Education Systems Unit
Department of Finance
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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Coast 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, 2000, through June 30, 2002. The last day of fieldwork was October 22, 2003.

The district claimed \$673,559 for the mandated program. The audit disclosed that \$122,835 is allowable and \$550,724 is unallowable. The unallowable costs occurred because the district claimed ineligible costs and understated claimed revenue offsets. The district was paid \$59,430. Allowable costs claimed in excess of the amount paid, totaling \$63,405, will be paid by the State based on available appropriations.

Background

Chapter 1, Statutes of 1984, 2nd Extraordinary Session (E.S.), repealed *Education Code* Section 72246, which had 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 1987, which would reinstate the community college district's 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 (COSM) determined that Chapter 1, Statutes of 1984, 2nd E.S., imposed a "new program" upon community college districts by requiring any community college district that provided health services for which it was authorized to charge a fee pursuant to former *Education Code* Section 72246 in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applies to all community college districts that levied a health services fee in FY 1983-84, regardless of the extent to which the health services fees collected offset the actual costs of providing health services at the FY 1983-84 level. On April 27, 1989, the COSM 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, and required them to maintain that level in FY 1987-88 and each fiscal year thereafter.

Parameters and Guidelines, adopted by the COSM on August 27, 1987 (and last amended May 25, 1989), establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd E.S., and Chapter 1118, Statutes of 1987) for the period of July 1, 2000, through June 30, 2002.

The auditor performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Coast Community College District claimed \$673,559 for costs of the legislatively mandated Health Fee Elimination Program. The audit disclosed that \$122,835 is allowable and \$550,724 is unallowable.

For FY 2000-01, the district was paid \$36,075 by the State. The audit disclosed that \$90,932 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$54,857, will be paid by the State based on available appropriations.

For FY 2001-02, the district was paid \$23,355 by the State. The audit disclosed that \$31,903 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$8,548, will be paid by the State based on available appropriations.

**Views of
Responsible
Official**

The SCO issued a draft audit report on January 30, 2004. Kimberly Allen, Administrative Director, Fiscal Affairs, responded through a telephone conversation on March 8, 2004, agreeing with the audit results. Ms. Allen stated that the district will not be submitting a written response.

Restricted Use

This report is solely for the information and use of the Coast Community College District, the California Community Colleges, the California Department of Education, 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

**Schedule 1—
Summary of Program Costs
July 1, 2000, through June 30, 2002**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference¹</u>
<u>July 1, 2000, through June 30, 2001</u>				
Health services cost	\$ 1,387,816	\$ 1,192,089	\$(195,727)	Findings 2, 3, 4
Less authorized health fee revenues	<u>(1,101,157)</u>	<u>(1,101,157)</u>	<u>—</u>	
Total costs	<u>\$ 286,659</u>	90,932	<u>\$(195,727)</u>	
Less amount paid by the State		<u>(36,075)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 54,857</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Health services cost	\$ 1,638,731	\$ 1,283,734	\$(354,997)	Findings 1, 2, 3, 4
Less authorized health fee revenues	<u>(1,251,831)</u>	<u>(1,251,831)</u>	<u>—</u>	
Total costs	<u>\$ 386,900</u>	31,903	<u>\$(354,997)</u>	
Less amount paid by the State		<u>(23,355)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 8,548</u>		
<u>Summary: July 1, 2000, through June 30, 2002</u>				
Health services cost	\$ 3,026,547	\$ 2,475,823	\$(550,724)	
Less authorized health fee revenues	<u>(2,352,988)</u>	<u>(2,352,988)</u>	<u>—</u>	
Total costs	<u>\$ 673,559</u>	122,835	<u>\$(550,724)</u>	
Less amount paid by the State		<u>(59,430)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 63,405</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Ineligible athletic insurance costs

In FY 2001-02, the district claimed ineligible athletic insurance costs totaling \$80,504. The error occurred because district staff members believed these costs were eligible for reimbursement.

Parameters and Guidelines requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during FY 1986-87 in FY 1987-88 and each fiscal year thereafter.

Parameters and Guidelines also states that the cost of insurance for the following activities is reimbursable: (1) on campus accident, (2) voluntary, and (3) insurance inquiry/claim administration.

Education Code Section 76355(d) (formerly Section 72246(e)) states that athletic insurance is not an authorized expenditure for health services.

Recommendation

The district should ensure that all costs claimed under the Health Fee Elimination Program are within the scope of the program's *Parameters and Guidelines*.

FINDING 2— Ineligible health costs

The district claimed ineligible health costs totaling \$53,873. The district claimed the costs of the following health services that were not provided in FY 1986-87: tuberculosis testing of college staff at Orange Coast College; tuberculosis testing of college staff and HIV testing of students at Golden West College; and various health services at Coastline College. In addition, the district claimed ineligible physical examinations costs of athletes at Orange Coast College.

Parameters and Guidelines requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during FY 1986-87 in FY 1987-88 and each fiscal year thereafter. It further requires that community college districts be reimbursed for the costs of health services provided in FY 1986-87.

Education Code Section 76355(d) (formerly Section 72246(e)) states that physical examinations of athletes is not an authorized expenditure for health services.

A summary of unallowable costs is as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Orange Coast College:			
Tuberculosis testing	\$ (3,610)	\$ (4,567)	\$ (8,177)
Physical exams	<u>(159)</u>	<u>(52)</u>	<u>(211)</u>
Subtotals	<u>(3,769)</u>	<u>(4,619)</u>	<u>(8,388)</u>
Golden West College:			
Tuberculosis testing	(10,217)	(11,087)	(21,304)
HIV testing	<u>(1,287)</u>	<u>(1,393)</u>	<u>(2,680)</u>
Subtotals	<u>(11,504)</u>	<u>(12,480)</u>	<u>(23,984)</u>
Coastline College:			
Various new services	<u>(5,458)</u>	<u>(16,043)</u>	<u>(21,501)</u>
Total audit adjustments	<u>\$ (20,731)</u>	<u>\$ (33,142)</u>	<u>\$ (53,873)</u>

Recommendation

The district should develop and implement an adequate accounting system to ensure that all claimed costs are eligible.

**FINDING 3—
Unallowable
salaries**

The district claimed unallowable salaries totaling \$25,604 as follows:

- Maintenance worker salaries totaling \$8,391 (\$2,983 in FY 2000-01 and \$5,408 in FY 2001-02) were also included in the computation of the federally approved indirect cost rate; and
- Work study student salaries totaling \$17,213 (\$8,256 in FY 2000-01 and \$8,957 in FY 2001-02) were unsupported.

Parameters and Guidelines specifies that community college districts shall be reimbursed for only costs of health services programs that are traceable to supporting documentation showing evidence of the validity of such costs.

A summary of unallowable costs is as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Maintenance workers	\$ (2,983)	\$ (5,408)	\$ (8,391)
Work study students	<u>(8,256)</u>	<u>(8,957)</u>	<u>(17,213)</u>
Total audit adjustments	<u>\$ (11,239)</u>	<u>\$ (14,365)</u>	<u>\$ (25,604)</u>

Recommendation

The district should develop and implement an adequate accounting system to ensure that all claimed costs are eligible.

**FINDING 4—
Unallowable
indirect costs**

The district claimed unallowable indirect costs totaling \$390,742.

The error occurred because the district applied the indirect cost rate of 42% to the total direct costs claimed instead of applying it to direct salaries and wages. The college used “salaries and wages” as the base to calculate the indirect cost rate. Therefore, the 42% rate could only be applied against salaries and wages to compute the indirect cost.

The auditor recomputed the indirect costs for both fiscal years by multiplying the allowable salaries and wages by the rate of 42%.

A summary of the adjustment to indirect costs is as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Allowable salaries claimed	\$ 587,439	\$ 613,594	
Times indirect cost rate	42%	42%	
Allowable indirect costs	246,724	257,709	\$ 504,434
Less indirect costs claimed	<u>(410,481)</u>	<u>(484,695)</u>	<u>(895,176)</u>
Audit adjustment	<u>\$ (163,757)</u>	<u>\$ (226,986)</u>	<u>\$ (390,742)</u>

Parameters and Guidelines states that “Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions.”

The State Controller’s claiming instructions state that community colleges have the option of using a federally approved rate prepared in accordance with OMB Circular A-21, or the SCO’s alternate methodology using Form FAM-29C.

Recommendation

The district should ensure that indirect costs claimed are computed using a federally approved rate prepared in accordance with OMB Circular A-21, or the SCO’s alternate methodology using Form FAM-29C.

**State Controller's Office
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