LOS RIOS 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, 2002, through June 30, 2005

JOHN CHIANG
California State Controller

May 2008

JOHN CHIANG
California State Controller

May 21, 2008

Anne Blackwood, President
Board of Trustees
Los Rios Community College District
1919 Spanos Court
Sacramento, CA 95825-3981

Dear Ms. Blackwood:

The State Controller's Office audited the costs claimed by the Los Rios 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, 2002, through June 30, 2005.

The district claimed $2,554,615 ($2,555,615 less a $1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that the entire amount is unallowable, primarily because the district did not report authorized health service fees. The State paid the district $814,928, which the State will offset from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Jon Sharpe, Deputy Chancellor
Los Rios Community College District
Carrie Bray, Director, Accounting Services
Los Rios Community College District
Marty Rubio, Specialist, Fiscal Accountability Section
California Community Colleges Chancellor's Office
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Los Rios 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, 2002, through June 30, 2005.

The district claimed $2,554,615 ($2,555,615 less a $1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that the entire amount is unallowable, primarily because the district did not report authorized health service fees. The State paid the district $814,928, which the State will offset from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

Background

Chapter 1, Statutes of 1984, 2nd Extraordinary Session (E.S.) 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 in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (CSM) 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 in 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 CSM 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 each fiscal year thereafter.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM 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 to assist school districts in claiming mandated program 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, 2002, through June 30, 2005.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

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.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by *Government Auditing Standards*. However, the district declined our request.

Conclusion

Our 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, the Los Rios Community College District claimed $2,554,615 ($2,555,615 less a $1,000 penalty for filing a late claim) for costs of the Health Fee Elimination Program. Our audit disclosed that the entire amount is unallowable.

The State paid the district $814,928, which it will offset from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

Views of Responsible Official

We issued a draft audit report on February 20, 2008. Jon Sharpe, Deputy Chancellor, responded by letter dated March 11, 2008 (Attachment), disagreeing with the audit results. This final audit report includes the district's response.

After further review, we revised Finding 1 to eliminate previously reported unallowable costs that resulted from extrapolating non-statistical sample results to the population sampled. Finding 1 now shows unallowable salaries and benefits totaling $16,019 and unallowable indirect costs totaling $4,889. We previously reported unallowable salaries and benefits totaling $148,851 and unallowable indirect costs totaling $45,484.

Restricted Use

This report is solely for the information and use of the Los Rios 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

May 21, 2008

Schedule 1—
Summary of Program Costs
July 1, 2002, through June 30, 2005

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference[1]
July 1, 2002, through June 30, 2003				
Direct costs:				
Salaries	$ 501,152	$ 498,087	$ (3,065)	Finding 1
Benefits	115,242	114,542	(700)	Finding 1
Services and supplies	12,117	6,287	(5,830)	Finding 2
Total direct costs	628,511	618,916	(9,595)	
Indirect costs	186,417	107,398	(79,019)	Findings 1, 2, 3
Total direct and indirect costs	814,928	726,314	(88,614)	
Less authorized health service fees	—	(1,293,681)	(1,293,681)	Finding 4
Subtotal	814,928	(567,367)	(1,382,295)	
Audit adjustments that exceed costs claimed	—	567,367	567,367	
Total program costs	$ 814,928	—	$ (814,928)	
Less amount paid by the State		(814,928)		
Allowable costs claimed in excess of (less than) amount paid		$ (814,928)		
July 1, 2003, through June 30, 2004				
Direct costs:				
Salaries	$ 516,187	$ 508,796	$ (7,391)	Finding 1
Benefits	128,945	127,151	(1,794)	Finding 1
Services and supplies	19,506	13,031	(6,475)	Finding 2
Total direct costs	664,638	648,978	(15,660)	
Indirect costs	201,983	113,671	(88,312)	Findings 1, 2, 3
Total direct and indirect costs	866,621	762,649	(103,972)	
Less authorized health service fees	—	(1,137,243)	(1,137,243)	Finding 4
Less late filing penalty	(1,000)	(1,000)	—	
Subtotal	865,621	(375,594)	(1,241,215)	
Audit adjustments that exceed costs claimed	—	375,594	375,594	
Total program costs	$ 865,621	—	$ (865,621)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ —		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 2004, through June 30, 2005				
Direct costs:				
Salaries	$ 516,410	$ 513,946	$ (2,464)	Finding 1
Benefits	128,609	128,004	(605)	Finding 1
Services and supplies	17,352	8,590	(8,762)	Finding 2
Total direct costs	662,371	650,540	(11,831)	
Indirect costs	211,695	231,352	19,657	Findings 1, 2, 3
Total direct and indirect costs	874,066	881,892	7,826	
Less authorized health service fees	—	(1,123,546)	(1,123,546)	Finding 4
Subtotal	874,066	(241,654)	(1,115,720)	
Audit adjustments that exceed costs claimed	—	241,654	241,654	
Total program costs	$ 874,066	—	$ (874,066)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ —		
Summary: July 1, 2002, through June 30, 2005				
Direct costs:				
Salaries	$ 1,533,749	$ 1,520,829	$ (12,920)	
Benefits	372,796	369,697	(3,099)	
Services and supplies	48,975	27,908	(21,067)	
Total direct costs	1,955,520	1,918,434	(37,086)	
Indirect costs	600,095	452,421	(147,674)	
Total direct and indirect costs	2,555,615	2,370,855	(184,760)	
Less authorized health service fees	—	(3,554,470)	(3,554,470)	
Less late filing penalty	(1,000)	(1,000)	—	
Subtotal	2,554,615	(1,184,615)	(3,739,230)	
Audit adjustments that exceed costs claimed	—	1,184,615	1,184,615	
Total program costs	$ 2,554,615	—	$(2,554,615)	
Less amount paid by the State		(814,928)		
Allowable costs claimed in excess of (less than) amount paid		$ (814,928)		

[1] See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1—
Unallowable salaries and benefits

The district claimed unallowable salaries and benefits totaling $16,019. The related indirect costs total $4,889. The unallowable salaries and benefits are attributable to (1) the increased level of health services that American River College (ARC) provided and (2) the insufficient supporting documentation that Consumnes River College (CRC) and Sacramento City College (SCC) provided.

The district's claims identified the health services that the district provided during fiscal year (FY) 1986-87, the mandated program's base year. For each college, we examined health service logs that covered a one-month period in each fiscal year. For CRC, we expanded our sample to include a second one-month period in FY 2003-04. The health service logs identify actual health services provided. ARC's health service logs showed that it provided health services exceeding the services that the district provided during FY 1986-87. In addition, CRC's and SCC's health service logs included entries that did not identify the service provided. As a result, we were unable to verify that those services were mandate-related.

The following table shows the percentage of unallowable or unsupported health services provided and the resulting unallowable salaries and benefits for each college and fiscal year:

	ARC	CRC	SCC	Total
Fiscal Year 2002-03:				
Salaries and benefits claimed	$ 241,188	$ 145,430	$ 229,776	
Number of months per year	÷ 12	÷ 12	÷ 12	
Average monthly salaries and benefits claimed	20,099	12,119	19,148	
Percentage of unallowable services provided	× (5.65)%	× (12.50)%	× (5.82)%	
Audit adjustment	(1,136)	(1,515)	(1,114)	$ (3,765)
Fiscal Year 2003-04:				
Salaries and benefits claimed	240,486	179,984	224,662	
Number of months per year	÷ 12	÷ 12	÷ 12	
Average monthly salaries and benefits claimed	20,041	14,999	18,722	
Number of months audited	× 1	× 2	× 1	
Total salaries and benefits for months audited	20,041	29,998	18,722	
Percentage of unallowable services provided	× (4.20)%	× (24.09)%	× (5.96)%	
Audit adjustment	(842)	(7,227)	(1,116)	(9,185)
Fiscal Year 2004-05:				
Salaries and benefits claimed	253,007	178,176	213,836	
Number of months per year	÷ 12	÷ 12	÷ 12	
Average monthly salaries and benefits claimed	21,084	14,848	17,820	
Percentage of unallowable services provided	× (5.04)%	× (13.51)%	× —	
Audit adjustment	(1,063)	(2,006)	—	(3,069)
Total audit adjustment	$ (3,041)	$ (10,748)	$ (2,230)	$ (16,019)

The following table summarizes the unallowable salaries and benefits and the related indirect costs:

	Fiscal Year			
	2002-03	2003-04	2004-05	Total
Salaries and benefits	$ (3,765)	$ (9,185)	$ (3,069)	$ (16,019)
Related indirect costs	(1,117)	(2,791)	(981)	(4,889)
Audit adjustment	$ (4,882)	$ (11,976)	$ (4,050)	$ (20,908)

The program's parameters and guidelines state that a community college district may claim costs only for those health services that it provided in FY 1986-87. In addition, the parameters and guidelines state that "all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs."

Recommendation

We recommend that the district maintain logs that consistently identify the health services actually provided. In addition, we recommend that the district adopt uniform health service logs by implementing ARC's health service log system for all colleges. We also recommend that the district claim only those costs related to health services that the district provided in FY 1986-87.

District's Response

> The audit work which generated these findings was a review of "service logs" . . . These logs are actually sign-in sheets in which persons obtaining service, with or without appointments, write their name and provide a four or five word description of their ailment. Some patients declined to state the reason for their visit, which is their right under state and federal laws, specifically HIPPA privacy laws.
>
> The service logs were not prepared for mandate or financial cost accounting purposes nor are they required by the parameters and guidelines. Neither the parameters and guidelines nor the Controller's claiming instructions require the claimants to report the number or type of service actually provided, but only require the claimant to provide an inventory of services available to students.
>
> There is no evidence that the service logs record all of the services provided each month. The extrapolation [finding] assumes that all staff labor is applied only to patient visits.
>
> There is no indication that the number of services provided in each of these months is a statistically valid sample of the scope of services provided. That is, patient visits may not be representative of all types of services provided.
>
> The time spent by staff to provide service varies by the type of service provided. The extrapolation assumes every patient visit requires the same amount of staff time to provide service.
>
> The audit disallows those visits for which no reason is stated by the patient. This essentially disallows services which are probably allowable. This penalizes the District for complying with privacy requirements.

> The audit report recommends that in the future the district maintain logs "that consistently identify the health services actually provided." This of course indicates that the auditor does not believe the current logs are representative of the services actually provided, yet the auditor used the logs for sampling and extrapolation. Therefore, the audit report concedes that findings are based on an incompetent source.
>
> The audit report quotes the parameters and guidelines as the legal basis for the adjustment, specifically, that " ... all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs." It is ironic and entirely unacceptable for the Controller to adjust claimed costs for insufficient documentation when the auditor chose documents never intended nor designed for cost accounting as the basis for these findings and then criticized the District's source documentation.

The district also objected to the SCO extrapolating sample results to total salaries and benefits claimed for each college and fiscal year.

SCO's Comment

We revised our audit finding to eliminate previously reported unallowable costs that resulted from extrapolating sample results to the full fiscal year for each college. For those colleges and fiscal years for which we sampled one month of services provided, we calculated unallowable costs by applying the percentage of unallowable services to the average monthly salaries and benefits claimed. Because we sampled two months for Consumnes River College's FY 2003-04 services provided, we doubled that amount. We also made non-substantive edits to our recommendation.

During our audit field work, we asked the district to provide documentation showing the actual services that the district provided. In response, the district provided the health service logs. We gave the district an opportunity to provide any other documentation that supports actual services provided. The district did not provide any other documentation during our audit fieldwork or in response to our draft audit report.

The district incorrectly states that the parameters and guidelines and the SCO's claiming instructions "only require the claimant to provide an inventory of services available to students." The parameters and guidelines actually state, "Only services provided in 1986-87 fiscal year may be claimed." They require the district to claim salaries and benefits by describing the mandated functions performed and specifying the actual number of hours devoted to each function. In addition, they state, "All costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs."

The district states that the service logs do not record all of the health services that it provided each month. However, the district provided no other documentation related to patient visits or the actual amount of time spent on reimbursable activities.

The district states, "The time spent by staff to provide service varies by the type of service provided. The extrapolation [finding] assumes every patient visit requires the same amount of staff time to provide service." However, the district did not provide any documentation that shows the actual time spent on unallowable activities. The district did not provide any documentation that specifies the actual number of hours devoted to each mandated function as required by the parameters and guidelines. In addition, the district failed to provide any reasonable alternative methodology to calculate costs claimed that are attributable to unallowable activities. The district's failure to provide any evidence of the individual costs allegedly incurred puts its entire claim in question. We conclude that the audit methodology is reasonable in light of the district's lack of supporting documentation.

The district also states, "The audit disallows those visits for which no reason is stated by the patient. This essentially disallows services which are probably allowable. This penalizes the District for complying with privacy requirements." The parameters and guidelines require the district to describe the mandated functions performed and specify the actual number of hours devoted to each function. The district provided no documentation showing that the referenced patient visits were "probably allowable." The district's compliance with Health Insurance Portability and Accountability Act (HIPAA) requirements is not relevant. It is the district's responsibility to maintain documentation that complies with the parameters and guidelines' requirements. The district may document actual services provided without violating HIPAA requirements simply by providing the same health service logs without disclosing patient names. District staff may contemporaneously identify the service(s) provided if the patient does not.

The district cites the audit report recommendation that states, "We recommend that the district maintain logs that consistently identify the health services actually provided." The district then incorrectly concludes that the SCO does not believe that the current logs are representative of the services actually provided and hypothesizes falsely that the audit report concedes to reporting a finding based on an incompetent source. Our recommendation only addresses the issue of documented patient visits that do not identify the actual service provided.

The district states, "It is ironic and entirely unacceptable for the Controller to adjust claimed costs for insufficient documentation when the auditor chose documents never intended nor designed for cost accounting as the basis for these findings and then criticized the District's source documentation." The SCO did not "choose" the documents. The SCO requested that the district provide documentation supporting actual services provided, in accordance with the parameters and guidelines' requirements. In response, the district provided copies of the health service logs. The district provided no other documentation to support actual services provided. The SCO did not "criticize" the source documentation, but instead noted instances in which the source documentation either did not identify the actual health services provided or identified unallowable services.

FINDING 2—Unallowable services and supplies

The district claimed unallowable services and supplies totaling $21,067. The related indirect costs total $6,497.

The district claimed $12,305 to provide medical services at sporting events and physical examinations for intercollegiate athletes. Education Code section 76355, subdivision (d)(2), states that authorized expenditures shall not include physical examinations for intercollegiate athletics and the salaries of health professionals for athletic events.

In addition, the district claimed $3,568 for laboratory service costs and $5,194 for immunization costs. The district's claims show that it did not provide these services during FY 1986-87. The parameters and guidelines state that a community college district may claim costs only for those health services that it provided in FY 1986-87.

The following table summarizes the audit adjustment:

	Fiscal Year			
	2002-03	2003-04	2004-05	Total
Services and supplies	$ (5,830)	$ (6,475)	$ (8,762)	$ (21,067)
Indirect costs	(1,729)	(1,968)	(2,800)	(6,497)
Audit adjustment	$ (7,559)	$ (8,443)	$ (11,562)	$ (27,564)

Recommendation

We recommend that the district claim costs only for those health services that it provided in FY 1986-87.

District's Response

> The audit findings do not state which tests and immunizations are disallowed, so it cannot be determined if the finding is accurate.

SCO's Comment

Our finding and recommendation are unchanged. During our exit conference conducted January 10, 2008, we provided the district a detailed schedule showing each individual unallowable item, identified by both the district's reference number and voucher number. The district did not provide any documentation to refute the audit finding.

FINDING 3—Overstated and understated indirect cost rates claimed

The district overstated its indirect cost rates for FY 2002-03 and FY 2003-04. The district understated its indirect cost rate for FY 2004-05. The overstated and understated indirect cost rates resulted in unallowable indirect costs totaling $136,288.

The district prepared its FY 2002-03 and FY 2003-04 indirect cost rate proposals (ICRPs) using Office of Management and Budget (OMB) Circular A-21 methodology. However, the district did not obtain federal approval for these ICRPs.

The district prepared its FY 2004-05 ICRP using the SCO's FAM-29C methodology. However, the district did not prepare the ICRP according to the SCO's claiming instructions. The district prepared the FY 2004-05 ICRP using FY 2003-04 actual cost data and did not properly allocate costs as indirect costs or direct costs.

We calculated allowable indirect cost rates using the FAM-29C methodology that the SCO's claiming instructions allow. The following table summarizes the claimed and allowable indirect cost rates and the resulting audit adjustment.

	Fiscal Year			
	2002-03	2003-04	2004-05	Total
Allowable indirect cost rate	16.47%	16.26%	35.76%	
Claimed indirect cost rate	(29.66)%	(30.39)%	(31.96)%	
(Overstated)/understated indirect cost rate	(13.19)%	(14.13)%	3.80%	
Allowable direct costs claimed	$ 577,502	$ 591,315	$ 616,785	
Audit adjustment	$ (76,173)	$ (83,553)	$ 23,438	$(136,288)

The parameters and guidelines state that "indirect costs may be claimed in the manner described by the State Controller in his claiming instructions." The SCO's claiming instructions state that districts must obtain federal approval for an ICRP prepared in accordance with OMB Circular A-21. Alternatively, the district may compute an indirect cost rate using Form FAM-29C, which is based on total fiscal year expenditures that the district reports in the California Community Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311).

Recommendation

We recommend that the district claim indirect costs based on indirect cost rates computed in accordance with the SCO's claiming instructions. The district must obtain federal approval for ICRPs prepared in accordance with OMB Circular A-21. Alternatively, the district should prepare its ICRPs using SCO's Form FAM-29C.

District's Response

> This finding results from the District calculating the indirect cost rated based upon how the CCSF-311 report characterizes the various accounts as direct or indirect costs. The Controller's method arbitrarily assigns certain costs to different categories. For example, for the first two fiscal years in this audit, the Controller does not include depreciation as an indirect cost, but does for the third fiscal year. The Controller insists that the rate be calculated according to the claiming instructions. The parameters and guidelines for Health Fee Elimination (as last amended on 5/25/89) state that "Indirect costs maybe claimed in the manner described by the State Controller in his claiming instructions." It does not require that indirect costs be claimed in the manner described by the State Controller. The District utilized the CCSF-311 classification of accounts which is more rational and consistent than the Controller's evolving formula.

SCO's Comment

Our finding and recommendation are unchanged. The district erroneously states that it calculated its indirect cost rates "based upon how the CCFS-311 report characterizes the various accounts as direct or indirect costs." The California Community Colleges Chancellor's Office's (CCCCO's) CCFS-311 report does not identify individual accounts as direct or indirect.

The SCO did not "arbitrarily" assign costs to direct or indirect cost categories. The SCO calculated indirect cost rates based on its claiming instructions applicable to each fiscal year. The SCO's Form FAM-29C methodology provides equitable rates that districts may use to allocate district administrative support costs to personnel that perform mandated program activities.

The district incorrectly concludes that the parameters and guidelines do not require that the district claim indirect costs according to the SCO's claiming instructions. The parameters and guidelines state, "Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions." The district misinterprets "may be claimed" by concluding that compliance with the claiming instructions is voluntary. Instead, "may be claimed" simply permits the district to claim indirect costs. However, if the district chooses to claim indirect costs, then it must comply with the SCO's claiming instructions.

FINDING 4—Unreported authorized health service fees

The district did not report authorized health service fees totaling $3,554,470.

Mandated costs do not include costs that are reimbursable from authorized 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 (CSM) 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.

For the audit period, 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; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need. The CCCCO identified the fees authorized by Education Code section 76355, subdivision (a). For FY 2002-03 and FY 2003-04, the authorized fees are $12 per semester and $9 per summer session. For FY 2004-05, the authorized fees are $13 per semester and $10 per summer session.

We obtained student enrollment, Board of Governors Grant (BOGG) recipient, and apprenticeship program enrollment data from the CCCCO. The CCCCO data is based on student data that the district reported. We calculated total authorized health service fees using the authorized health service fee rates that the CCCCO identified.

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

	Semester			
	Summer	Fall	Spring	Total
Fiscal Year 2002-03:				
Student enrollment	28,310	72,031	68,248	
BOGG recipients	(7,847)	(20,059)	(19,597)	
Apprenticeship program enrollees	(790)	(5,236)	(2,335)	
Students subject to health fee	19,673	46,736	46,316	
Authorized health fee rate	× $ (9)	× $ (12)	× $ (12)	
Audit adjustment, FY 2002-03	$ (177,057)	$ (560,832)	$ (555,792)	$ (1,293,681)
Fiscal Year 2003-04:				
Student enrollment	25,500	67,881	67,013	
BOGG recipients	(9,579)	(23,472)	(23,344)	
Apprenticeship program enrollees	(674)	(2,244)	(2,499)	
Students subject to health fee	15,247	42,165	41,170	
Authorized health fee rate	× $ (9)	× $ (12)	× $ (12)	
Audit adjustment, FY 2003-04	$ (137,223)	$ (505,980)	$ (494,040)	(1,137,243)
Fiscal Year 2004-05:				
Student enrollment	25,290	67,316	67,936	
BOGG recipients	(11,302)	(27,138)	(27,250)	
Apprenticeship program enrollees	(1,385)	(2,461)	(1,671)	
Students subject to health fee	12,603	37,717	39,015	
Authorized health fee rate	× $ (10)	× $ (13)	× $ (13)	
Audit adjustment, FY 2004-05	$ (126,030)	$ (490,321)	$ (507,195)	(1,123,546)
Total audit adjustment				$ (3,554,470)

Recommendation

We recommend that the district deduct authorized health service fees from mandate-related costs claimed. The district should maintain records that support its calculation of authorized health service fees. These records should identify the actual non-duplicated student enrollment and students who are exempt from health service fees under Education Code section 76355, subdivision (c).

District's Response

> This finding reduces the claimed program costs by a calculated amount of student health services fees never collected. The District does not collect a student health services fee.
>
> Education Code Section 76355, subdivision (a), in relevant part, provides: "The governing board of a district maintaining a community college *may require* community college students to pay a fee . . . for health supervision and services. . . ." There is no requirement that community colleges levy these fees. The permissive nature of the provision is further illustrated in subdivision (b) which states "*If*, pursuant to this section, a fee is required, the governing board of the district shall decide the amount of the fee, if any, that a part-time

student is required to pay. *The governing board may decide whether the fee shall be mandatory or optional*." (Emphasis supplied in both instances)

The Parameters and Guidelines, as last amended on 5/25/89, state, in relevant part, "Any offsetting savings . . . must be deducted from the costs claimed . . . This shall include the amount of (student fees) as authorized by Education Code Section 72246 (a)[1]." The use of the term "offsetting savings" further illustrates the permissive nature of the fees. Student fees actually collected must be used to offset costs, but not student fees that could have been collected and were not.

The audit report also cites Government Code Section 17556 which only prohibits the Commission on State Mandates from finding costs in certain instances. Here, the Commission has already made a finding of a new program or increased costs.

[1] Former Education Code Section 72246 was repealed by Chapter 8, Statutes of 1993, Section 29, and was replaced by Education Code Section 76355.

SCO's Comment

Our finding and recommendation are unchanged. We agree that community college districts may choose not to levy a health service fee. However, Education Code section 76355, subdivision (a), provides districts the authority to levy a health service fee. The CCCCO notifies districts of the fee amount authorized pursuant to Education Code section 76355, subdivision (a).

Regardless of the district's decision to levy or not levy a health service fee, the district does have the *authority* to levy the fee. Government Code section 17514 states, "'Costs mandated by the state' means any increased costs which a local agency or school district is *required* to incur . . ." [Emphasis added]." To the extent the district is authorized to collect health service fees attributable to health service expenses, it is not *required* to incur a cost. Therefore, those health service expenses do not meet the statutory definition of mandated costs.

In addition, Government Code section 17556, subdivision (d), state that the CSM shall not find costs mandated by the State if the district has the authority to levy fees to pay for the mandated program or increased level of service. For the Health Fee Elimination Program, the CSM did recognize that another funding source was available by including health service fees as offsetting savings in the parameters and guidelines. The result is the same: To the extent districts have the authority to charge a fee, they are not required to incur a cost.

ADDITIONAL ISSUE—Claim Payment

The district's response included comments regarding the amounts paid by the State, as shown in Schedule 1, Summary of Program Costs. The district's response and SCO's comment are as follows:

District's Response

> The audit report asserts in several locations that the District was paid $814,928 and this amount should be remitted to the state. The money was never "paid" to the District. The Controller offset the amount payable by reductions to payments for other mandate claims and fiscal years.

SCO's Comment

The claim payment amount is unchanged. The term "paid" is simply the past tense of "pay," which is defined as "discharging indebtedness" [1]. The State discharged its FY 2002-03 indebtedness to the district by equally discharging the district's indebtedness to the State for other mandated program claims.

[1] Merriam-Webster's Collegiate Dictionary, Tenth Edition

Attachment—
District's Response to
Draft Audit Report

LOS RIOS
COMMUNITY COLLEGE DISTRICT

American River College
Cosumnes River College
Folsom Lake College
Sacramento City College

1919 Spanos Court
Sacramento, CA 95825
Phone: 916 568-3112
Fax: 916 568-3061
www.losrios.edu

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

March 11, 2008

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

Re: Chapter 1, Statutes of 1984
Health Fee Elimination
State Controller's Audit
Fiscal Years: 2002-03, 2003-04, and 2004-05

Dear Mr. Spano:

This letter is the response of the Los Rios Community College District to the letter from Jeffrey V. Brownfield, Chief, Division of Audits, dated February 20, 2008, and received by the District on February 28, 2008, which transmitted the draft audit report for the above referenced mandate program and fiscal years.

Finding 1 - Unallowable salaries and benefits

The draft audit report eliminates $194,335 of salary and benefits for the three fiscal years. The stated reasons are that some of the services sampled exceeded those of the FY 1986-87 base year and that there was insufficient supporting documentation for other services. The audit work which generated these findings was a review of "service logs" for one month at each college for each fiscal year, with an additional month reviewed at Consumnes River College for one fiscal year. These logs are actually sign-in sheets in which persons obtaining service, with or without appointments, write their name and provide a four or five word description of their ailment. Some patients declined to state the reason for their visit, which is their right under state and federal laws, specifically HIPPA privacy laws.

Based on a review of these logs, the audit concluded that some visits were for services not provided in the base year, and where the patient declined to state the reason for the visit, the audit determined that this was insufficient documentation and thus disallowed the visit. These excess and unidentified services were determined to be "unallowable" and generated exception rates (ranging from about 4% to 24%) which were extrapolated to the entire cost of the salary and benefits for the student health services program.

These "service logs" are inappropriate as the basis for "findings" and extrapolation for the audit adjustments for several reasons:

-The service logs were not prepared for mandate or financial cost accounting purposes nor are they required by the parameters and guidelines. Neither the parameters and guidelines nor the Controller's claiming instructions require the claimants to report the number or type of service actually provided, but only require the claimant to provide an inventory of services available to students.

-There is no evidence that the one month of service logs reviewed for each of the three years (36 months of service) at each of the three colleges are representative of the entire year (total number of visits). There is definitely seasonal workload (fewer students in the summer) and seasonal staffing. The extrapolation assumes the workload and labor costs are the same each month.

-There is no evidence that the service logs record all of the services provided each month. The extrapolation is adjusting total salaries and benefits and therefore assumes that *all* staff labor is applied only to patient visits.

-There is no indication that the number of services provided in each of these months is a statistically valid sample of the scope of services provided. That is, patient visits may not be representative of all types of services provided.

-The time spent by staff to provide service varies by the type of service provided. The extrapolation assumes every patient visit requires the same amount of staff time to provide service.

-The audit disallows those visits for which no reason is stated by the patient. This essentially disallows services which are probably allowable. This penalizes the District for complying with privacy requirements.

-Extrapolation of sample findings requires a statistically valid sample. The service logs are not factually or statistically relevant to the cost of services so they cannot be used as a sample of services provided. The extrapolation of the exceptions to the total salary and benefits costs is not a relevant universe of cost for extrapolation of the service log. The audit report recommends that in the future the district maintain logs "that consistently identify the health services actually provided." This of course indicates that the auditor does not believe the current logs are representative of the services actually provided, yet the auditor used the logs for sampling and extrapolation. Therefore, the audit report concedes that findings are based on an incompetent source.

The audit report quotes the parameters and guidelines as the legal basis for the adjustment, specifically, that " . . . all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs." It is ironic and entirely unacceptable for the Controller to adjust claimed costs for insufficient

documentation when the auditor chose documents never intended nor designed for cost accounting as the basis for these findings and then criticized the District's source documentation.

Finding 2 - Unallowable services and supplies

Lab and Immunization Services

The finding disallows $3,568 for laboratory services and $5,194 for immunizations which the audit concludes were not provided in the base-year. The source of this conclusion was the health services inventory which is part of the claim. The audit findings do not state which tests and immunizations are disallowed, so it cannot be determined if the finding is accurate.

Finding 3 - Overstated and understated indirect cost rates claimed

This finding results from the District calculating the indirect cost rated based upon how the CCSF-311 report characterizes the various accounts as direct or indirect costs. The Controller's method arbitrarily assigns certain costs to different categories. For example, for the first two fiscal years in this audit, the Controller does not include depreciation as an indirect cost, but does for the third fiscal year.

The Controller insists that the rate be calculated according to the claiming instructions. The parameters and guidelines for Health Fee Elimination (as last amended on 5/25/89) state that "Indirect costs *may be claimed* in the manner described by the State Controller in his claiming instructions." It does not require that indirect costs be claimed in the manner described by the State Controller. The District utilized the CCSF-311 classification of accounts which is more rational and consistent than the Controller's evolving formula.

Finding 4 - Understated authorized health service fees

This finding reduces the claimed program costs by a calculated amount of student health services fees never collected. The District does not collect a student health services fee.

Education Code Section 76355, subdivision (a), in relevant part, provides: "The governing board of a district maintaining a community college *may require* community college students to pay a fee . . . for health supervision and services . . . " There is no requirement that community colleges levy these fees. The permissive nature of the provision is further illustrated in subdivision (b) which states "*If*, pursuant to this section, a fee is required, the governing board of the district shall decide the amount of the fee, if any, that a part-time student is required to pay. *The governing board may decide whether the fee shall be mandatory or optional*." (Emphasis supplied in both instances)

The Parameters and Guidelines, as last amended on 5/25/89, state, in relevant part, "*Any* offsetting savings . . . must be deducted from the costs claimed . . . This shall include the amount of (student fees) as authorized by Education Code Section 72246(a)[1]." The use of the term "*any* offsetting savings" further illustrates the permissive nature of the fees. Student fees actually collected must be used to offset costs, but not student fees that could have been collected and were not.

The audit report also cites Government Code Section 17556 which only prohibits the Commission on State Mandates from finding costs in certain instances. Here, the Commission has already made a finding of a new program or increased costs.

The audit manager indicated at the entrance conference that this adjustment would be made and then stated at the exit conference that future claims would be audited to continue this adjustment. It would seem unnecessary to continue to burden the District and expend state staff resources for field audits when the Controller has decided that no costs will be allowed.

Claim Payment

The audit report asserts in several locations that the District was paid $814,928 and this amount should be remitted to the state. The money was never "paid" to the District. The Controller offset the amount payable by reductions to payments for other mandate claims and fiscal years.

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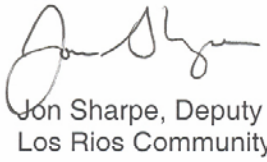
Therefore, for the reasons stated above, Los Rios Community College District requests that the audit report be changed to comply with the law.

Sincerely,



Jon Sharpe, Deputy Chancellor
Los Rios Community College District

C: Jeffrey V. Brownfield, Chief, Division of Audits
Keith Petersen, SixTen and Associates
Carrie Bray, Director, Accounting Services
Raymond Andres, General Accounting Supervisor

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[1] Former Education Code Section 72246 was repealed by Chapter 8, Statutes of 1993, Section 29, and was replaced by Education Code Section 76355.

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http://www.sco.ca.gov

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