

SAN FRANCISCO 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, 2001, through June 30, 2005



JOHN CHIANG
California State Controller

June 2007



JOHN CHIANG
California State Controller

June 22, 2007

Peter Goldstein, Vice Chancellor
Finance and Administration
San Francisco Community College District
33 Gough Street
San Francisco, CA 94103

Dear Mr. Goldstein:

The State Controller's Office audited the costs claimed by the San Francisco 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, 2001, through June 30, 2005.

The district claimed \$1,718,161 (\$1,719,161 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$1,618,004 is allowable and \$100,157 is unallowable. The unallowable costs occurred primarily because the district did not report offsetting revenues applicable to the mandated program. The State paid the district \$898,725. Allowable costs claimed exceed the amount paid by \$719,279.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). 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 COSM'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, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/jj:vb

cc: John Bilmont

Chief Financial Officer
San Francisco Community College District

Amelia Sandro

Grant Fiscal Supervisor
San Francisco Community College District

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the San Francisco Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session [2nd E.S.], and Chapter 1118, Statutes of 1987) for the period of July 1, 2001, through June 30, 2005. The last day of fieldwork was February 6, 2007.

The district claimed \$1,718,161 (\$1,719,161 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$1,618,004 is allowable and \$100,157 is unallowable. The unallowable costs occurred primarily because the district did not report offsetting revenues applicable to the mandated program. The State paid the district \$898,725. Allowable costs claimed exceed the amount paid by \$719,279.

Background

Chapter 1, Statutes of 1984, 2nd E.S., repealed *Education Code* Section 72246 which had authorized community college districts to charge a health fee to provide health supervision and services, medical and hospitalization services, and to operate 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 (COSM) determined that Chapter 1, Statutes of 1984, 2nd E.S., 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, 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, requiring them to maintain that level in FY 1987-88 and each fiscal year thereafter.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on August 27, 1987, and amended it on May 25, 1989. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs to assist school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2001, 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.

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, San Francisco Community College District claimed \$1,718,161 (\$1,719,161 less a \$1,000 penalty for filing a late claim) for costs of the Health Fee Elimination Program. Our audit disclosed that \$1,618,004 is allowable and \$100,157 is unallowable.

For the fiscal year (FY) 2001-02 claim, the State paid the district \$613,314. Our audit disclosed that \$557,029 is allowable. The State will offset \$56,285 from other mandated program payments due to the district. Alternatively, the district may remit this amount to the State.

For the FY 2002-03 claim, the State paid the district \$285,411. Our audit disclosed that the entire amount is allowable.

For the FY 2003-04 claim, the State made no payment to the district. Our audit disclosed that \$338,733 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State made no payment to the district. Our audit disclosed that \$436,831 is allowable. The State will pay that amount, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on April 25, 2007. We contacted Amelia Sandro, Grant Fiscal Supervisor, by telephone on June 4, 2007. Ms. Sandro declined to respond to the draft report.

Restricted Use

This report is solely for the information and use of the San Francisco 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

**Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2005**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 968,404	\$ 968,404	\$ —	
Services and supplies	116,735	58,989	(57,746)	Finding 1
Total direct costs	1,085,139	1,027,393	(57,746)	
Indirect costs	275,973	257,401	(18,572)	Findings 1, 2, 3
Total direct and indirect costs	1,361,112	1,284,794	(76,318)	
Less authorized health service fees	(747,798)	(676,287)	71,511	Finding 4
Less offsetting savings/reimbursements	—	(51,478)	(51,478)	Finding 5
Total program costs	<u>613,314</u>	557,029	<u>\$ (56,285)</u>	
Less amount paid by the State		(613,314)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (56,285)</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries and benefits	\$ 904,775	\$ 904,775	\$ —	
Services and supplies	43,165	43,165	—	
Total direct costs	947,940	947,940	—	
Indirect costs	233,449	210,554	(22,895)	Findings 2, 3
Total direct and indirect costs	1,181,389	1,158,494	(22,895)	
Less authorized health service fees	(894,978)	(718,254)	176,724	Finding 4
Less offsetting savings/reimbursements	—	(107,559)	(107,559)	Finding 5
Less allowable costs that exceed costs claimed ²	—	(46,270)	(46,270)	
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 285,411</u>	285,411	<u>\$ —</u>	
Less amount paid by the State		(285,411)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Salaries and benefits	\$ 843,157	\$ 843,157	\$ —	
Services and supplies	16,871	16,871	—	
Total direct costs	860,028	860,028	—	
Indirect costs	230,496	210,887	(19,609)	Finding 3
Total direct and indirect costs	1,090,524	1,070,915	(19,609)	
Less authorized health service fees	(751,791)	(587,499)	164,292	Finding 4
Less offsetting savings/reimbursements	—	(47,003)	(47,003)	Finding 5
Less allowable costs that exceed costs claimed ²	—	(97,680)	(97,680)	
Total program costs	<u>\$ 338,733</u>	338,733	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 388,733</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Salaries and benefits	\$ 924,400	\$ 924,400	\$ —	
Services and supplies	11,524	11,524	—	
Total direct costs	935,924	935,924	—	
Indirect costs	297,905	336,465	38,560	Finding 3
Total direct and indirect costs	1,233,829	1,272,389	38,560	
Less authorized health service fees	(753,126)	(599,533)	153,593	Finding 4
Less offsetting revenues/reimbursements	—	(236,025)	(236,025)	Finding 5
Total program costs	<u>\$ 480,703</u>	436,831	<u>\$ (43,872)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 436,831</u>		
<u>Summary: July 1, 2001, through June 30, 2005</u>				
Salaries and benefits	\$ 3,640,736	\$ 3,640,736	\$ —	
Services and supplies	188,295	130,549	(57,746)	Finding 1
Total direct costs	3,829,031	3,771,285	(57,746)	
Indirect costs	1,037,823	1,015,307	(22,516)	Findings 1, 2, 3
Total direct and indirect costs	4,866,854	4,786,592	(80,262)	
Less authorized health service fees	(3,147,693)	(2,581,573)	566,120	Finding 4
Less offsetting revenues/reimbursements	—	(442,065)	(442,065)	Finding 5
Less allowable costs that exceed costs claimed ²	—	(143,950)	(143,950)	
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 1,718,161</u>	1,618,004	<u>\$ (100,157)</u>	
Less amount paid by the State		(898,725)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 719,279</u>		

¹ See the Findings and Recommendations section.

² *Government Code* Section 17561 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 2002-03 and FY 2003-04.

Findings and Recommendations

**FINDING 1—
Unallowable services
and supplies costs**

The district claimed unallowable services and supplies costs totaling \$57,746 in fiscal year (FY) 2001-02. Of this amount, the district expended \$30,568 for capital outlay costs. The related indirect costs total \$14,686. The services and supplies costs are unallowable because the district also charged these costs as expenses to its block grant fund programs.

Parameters and Guidelines states, “Reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.”

Recommendation

We recommend that the district identify offsetting revenues applicable to health services costs and deduct these revenues from costs claimed for the mandated program.

**FINDING 2—
Unallowable indirect
costs**

The district claimed unallowable indirect costs totaling \$11,052. The district applied its indirect cost rates to the incorrect direct cost base when calculating indirect costs claimed.

For FY 2001-02 and FY 2002-03, services and supplies costs claimed included capital outlay costs. The district calculated its indirect cost rates using the FAM-29C methodology allowed by the SCO’s claiming instructions. However, the FAM-29C calculation excludes capital outlay costs. Therefore, the district cannot apply its indirect cost rates to capital outlay direct costs.

Parameters and Guidelines states, “Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions.” The SCO’s claiming instructions state that capital outlay costs are excluded from the indirect cost rate computation.

The following table summarizes the audit adjustment.

	Fiscal Year		Total
	2001-02	2002-03	
Capital outlay costs claimed	\$ (59,979)	\$ (14,508)	
Less unallowable capital outlay costs in Finding 1	30,568	—	
Subtotal	(29,411)	(14,508)	
Indirect cost rate	× 25.43%	× 24.63%	
Audit adjustment	<u>\$ (7,479)</u>	<u>\$ (3,573)</u>	<u>\$ (11,052)</u>

Recommendation

We recommend that the district exclude capital outlay costs claimed when computing indirect costs claimed.

**FINDING 3—
Understated and
overstated indirect
cost rates**

The district understated allowable indirect costs by \$3,222 for the audit period. The district understated its indirect cost rates for FY 2001-02 and FY 2004-05, and overstated the rates for FY 2002-03 and FY 2003-04.

The district calculated its indirect cost rates using the FAM-29C methodology allowed by the SCO's claiming instructions. The FAM-29C calculation is based on total expenditures that the district reports in its annual California Community Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311). However, the district did not complete the FAM-29C form correctly for each fiscal year.

FY 2001-02

The district incorrectly included transfers, student aid, and other outgo costs in the direct cost base. The district also identified incorrect costs for Auxiliary Operations, incorrectly classified Community Relations, Staff Development, and Staff Diversity as indirect costs, and did not allocate 7% of Operations and Maintenance of Plant costs to indirect costs.

FY 2002-03

The district incorrectly included Extended Opportunity Programs and Services (EOPS) other outgo costs in the direct cost base. The district also incorrectly classified Community Relations, Staff Development, Staff Diversity, Community Services, Ancillary Services, and Auxiliary Operations costs as indirect costs and did not allocate 7% of Operations and Maintenance of Plant costs to indirect costs.

FY 2003-04

The district incorrectly included EOPS other outgo costs in the direct cost base. The district also incorrectly classified Staff Development, Staff Diversity, Community Services, Ancillary Services, Auxiliary Operations, and Physical Property Acquisitions as indirect costs, and did not allocate 7% of Operations and Maintenance of Plant costs to indirect costs.

FY 2004-05

The district incorrectly included EOPS other outgo costs and Auxiliary Operations' other outgo costs in the direct cost base. The district also incorrectly classified Community Relations, Community Services, Ancillary Services, Auxiliary Operations, and Physical Property Acquisitions as indirect costs, and incorrectly classified Operations and Maintenance of Plant costs as direct costs.

Parameters and Guidelines states, "Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions." The SCO's claiming instructions identify the allowable allocation of direct and indirect costs when using the FAM-29C indirect cost rate methodology.

The following table shows the allowable and claimed indirect cost rates for each fiscal year.

	Fiscal Year			
	2001-02	2002-03	2003-04	2004-05
Allowable indirect cost rate	25.79%	22.56%	24.52%	35.95%
Less claimed indirect cost rate	(25.43)%	(24.63)%	(26.80)%	(31.83)%
Understated/(overstated) indirect cost rate	0.36%	(2.07)%	(2.28)%	4.12%

The following table summarizes the audit adjustment based on the understated or overstated indirect cost rates.

	Fiscal Year				Total
	2001-02	2002-03	2003-04	2004-05	
Allowable direct costs claimed	\$ 1,027,393	\$ 947,940	\$ 860,028	\$ 935,924	
Less allowable capital outlay costs claimed	(29,411)	(14,508)	—	—	
Subtotal	997,982	933,432	860,028	935,924	
Understated/(overstated) indirect cost rate	× 0.36%	× (2.07)%	× (2.28)%	× 4.12%	
Audit adjustment	\$ 3,593	\$ (19,322)	\$ (19,609)	\$ 38,560	\$ 3,222

Recommendation

We recommend that the district prepare its FAM-29C indirect cost rate calculations in accordance with the SCO’s claiming instructions applicable to each fiscal year.

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

The district overstated authorized health service fee revenue by \$566,120 for the audit period. The district calculated authorized health service fee revenue using student enrollment figures that did not agree with information that the district reported to the California Community Colleges Chancellor’s Office (CCCCO).

Parameters and Guidelines states that health fees authorized by the Education Code must be deducted from costs claimed. *Education Code* Section 76355(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 (Board of Governors Grants [BOGG waivers]). Effective with the Summer 2004 session, *Education Code* Section 76355(a) authorized a \$1.00 increase to health service fees.

We obtained student enrollment, BOGG waiver, and apprenticeship program enrollment data that the district reported to the CCCCCO. The district did not provide any documentation of students exempt pursuant to *Education Code* Section 76355(c)(1).

The following table shows the authorized health fee calculation and audit adjustment for each fiscal year.

	Semester			Total
	Summer	Fall	Spring	
<u>FY 2001-02</u>				
Student enrollment subject to health service fee	6,343	24,707	26,893	
Health service fee	× \$ (9)	× \$(12)	× \$(12)	
Allowable authorized health service fees	<u>\$ (57,087)</u>	<u>\$(296,484)</u>	<u>\$(322,716)</u>	\$(676,287)
Less authorized health service fees claimed				<u>747,798</u>
Audit adjustment, FY 2001-02				<u>71,511</u>
<u>FY 2002-03</u>				
Student enrollment subject to health service fee	10,814	25,894	25,850	
Health service fee	× \$ (9)	× \$(12)	× \$(12)	
Allowable authorized health service fees	<u>\$ (97,326)</u>	<u>\$(310,728)</u>	<u>\$(310,200)</u>	(718,254)
Less authorized health service fees claimed				<u>894,978</u>
Audit adjustment, FY 2002-03				<u>176,724</u>
<u>FY 2003-04</u>				
Student enrollment subject to health service fee	4,727	22,203	23,210	
Health service fee	× \$ (9)	× \$(12)	× \$(12)	
Allowable authorized health service fees	<u>\$ (42,543)</u>	<u>\$(266,436)</u>	<u>\$(278,520)</u>	(587,499)
Less authorized health service fees claimed				<u>751,791</u>
Audit adjustment, FY 2003-04				<u>164,292</u>
<u>FY 2004-05</u>				
Student enrollment subject to health service fee	4,871	21,067	21,304	
Health service fee	× \$(10)	× \$(13)	× \$(13)	
Allowable authorized health service fees	<u>\$ (48,710)</u>	<u>\$(273,871)</u>	<u>\$(276,952)</u>	(599,533)
Less authorized health service fees claimed				<u>753,126</u>
Audit adjustment, FY 2004-05				<u>153,593</u>
Total audit adjustment				<u>\$ 566,120</u>

Recommendation

We recommend that the district deduct authorized health service fees from allowable health services program costs. We recommend that the district calculate authorized student health fees using actual student enrollment, BOGG waiver, and apprenticeship program enrollment information that it submits to CCCC.

**FINDING 5—
Understated
offsetting revenues/
reimbursements**

The district understated offsetting revenues/reimbursements by \$442,065 for the audit period. The district received health services program-related revenue from various sources that it did not report on its mandated cost claims.

Parameters and Guidelines provides that “reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.”

The following table summarizes the audit adjustment.

	Fiscal Year				Total
	2001-02	2002-03	2003-04	2004-05	
Audit adjustment	\$ (51,478)	\$(107,559)	\$ (47,003)	\$(236,025)	\$(442,065)

Recommendation

We recommend that the district report all health services program-related offsetting revenues on its mandated cost claims.

**State Controller's Office
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