

SAN JOSÉ/EVERGREEN 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

February 2008



JOHN CHIANG
California State Controller

February 15, 2008

Rosa G. Pérez, Chancellor
San José/Evergreen Community College District
4750 San Felipe Road
San Jose, CA 95135-1513

Dear Ms. Pérez:

The State Controller's Office audited the costs claimed by the San José/Evergreen 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 \$678,943 for the mandated program. Our audit disclosed that \$486,418 is allowable and \$192,525 is unallowable. The unallowable costs resulted because the district understated allowable indirect costs and authorized health service fees. The State paid the district \$187,654. Allowable costs claimed exceed the amount paid by \$298,764.

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/sk

cc: Serena Muindi

Director of Fiscal Services/Controller
San José/Evergreen Community College District

Ngoc Chim

Accounting Technician Senior
San José/Evergreen Community College District

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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Summary of Program Costs.....	4
Findings and Recommendations	6

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the San José/Evergreen 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 \$678,943 for the mandated program. Our audit disclosed that \$486,418 is allowable and \$192,525 is unallowable. The unallowable costs resulted because the district understated allowable indirect costs and authorized health service fees. The State paid the district \$187,654. Allowable costs claimed exceed the amount paid by \$298,764.

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 statute's provisions 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 the 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.

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 San José/Evergreen Community College District claimed \$678,943 for costs of the Health Fee Elimination Program. Our audit disclosed that \$486,418 is allowable and \$192,525 is unallowable.

For the fiscal year (FY) 2002-03 claim, the State paid the district \$187,654. Our audit disclosed that \$111,922 is allowable. The State will offset \$75,732 from other mandated program payments due to the district. Alternatively, the district may remit this amount to the State.

For the FY 2003-04 claim, the State made no payment to the district. Our audit disclosed that \$180,772 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 \$193,724 is allowable. The State will pay that amount, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on December 12, 2007. We contacted Ngoc Chim, Accounting Technician Senior, by e-mail on January 16, 2008. Ms. Chim declined to respond to the draft report.

Restricted Use

This report is solely for the information and use of the San José/ Evergreen 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

February 15, 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
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 344,078	\$ 344,078	\$ —	
Services and supplies	36,783	36,783	—	
Total direct costs	380,861	380,861	—	
Indirect costs	60,557	60,557	—	
Total direct and indirect costs	441,418	441,418	—	
Less authorized health service fees	(253,764)	(329,496)	(75,732)	Finding 1
Total program costs	<u>\$ 187,654</u>	111,922	<u>\$ (75,732)</u>	
Less amount paid by the State		(187,654)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (75,732)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 369,027	\$ 369,027	\$ —	
Services and supplies	39,946	39,946	—	
Total direct costs	408,973	408,973	—	
Indirect costs	62,163	62,163	—	
Total direct and indirect costs	471,136	471,136	—	
Less authorized health service fees	(174,348)	(290,364)	(116,016)	Finding 1
Total program costs	<u>\$ 296,788</u>	180,772	<u>\$ (116,016)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 180,772</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 350,450	\$ 350,450	\$ —	
Services and supplies	33,543	33,543	—	
Total direct costs	383,993	383,993	—	
Indirect costs	59,135	106,443	47,308	Finding 2
Total direct and indirect costs	443,128	490,436	47,308	
Less authorized health service fees	(248,717)	(296,712)	(47,995)	Finding 1
Mathematical error	90	—	(90)	
Total program costs	<u>\$ 194,501</u>	193,724	<u>\$ (777)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 193,724</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 1,063,555	\$ 1,063,555	\$ —	
Services and supplies	<u>110,272</u>	<u>110,272</u>	<u>—</u>	
Total direct costs	1,173,827	1,173,827	—	
Indirect costs	<u>181,855</u>	<u>229,163</u>	47,308	
Total direct and indirect costs	1,355,682	1,402,990	47,308	
Less authorized health service fees	(676,829)	(916,572)	(239,743)	
Mathematical error	<u>90</u>	<u>—</u>	<u>(90)</u>	
Total program costs	<u>\$ 678,943</u>	486,418	<u>\$ (192,525)</u>	
Less amount paid by the State		<u>(187,654)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 298,764</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Understated authorized health service fees

The district understated authorized health service fees by \$239,743 for the audit period. The district reported actual fees collected rather than authorized fees.

We calculated authorized health service fees using student enrollment, Board of Governors Grant (BOGG) recipient, and apprenticeship program enrollee data that the district reported to the California Community Colleges Chancellor's Office.

The following table summarizes the allowable authorized health service fees and the audit adjustment:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Non-duplicated student enrollment	41,316	40,378	40,131	
Number of BOGG recipients	(13,761)	(16,098)	(17,261)	
Number of apprenticeship program enrollees	(97)	(83)	(46)	
Number of students subject to authorized health service fee	27,458	24,197	22,824	
Authorized health service fee	× \$ (12)	× \$ (12)	× \$ (13)	
Allowable authorized health service fees	\$ (329,496)	\$ (290,364)	\$ (296,712)	\$ (916,572)
Authorized health service fees claimed	253,764	174,348	248,717	676,829
Audit adjustment	\$ (75,732)	\$ (116,016)	\$ (47,995)	\$ (239,743)

The program's parameters and guidelines state that health fees authorized by the Education Code must be deducted from costs claimed. 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.

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 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.

Recommendation

We recommend that the district claim the health service fees authorized by the Education Code. The district should maintain records that support the calculated 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

The district did not respond to the audit finding.

**FINDING 2—
Understated indirect
cost rate claimed**

For fiscal year (FY) 2004-05, the district understated the allowable indirect cost rate and thus understated allowable indirect costs. The district calculated an indirect cost rate of 15.40%; the allowable indirect cost rate is 27.72%. The district understated the allowable indirect cost rate for the following reasons:

- The district partly allocated costs to its direct cost pool for the following expenditure activities: Operation and Maintenance of Plant, Planning and Policy Making, and General Institutional Support Services. The SCO’s claiming instructions identify these expenditure activities as indirect costs.
- The district included physical property acquisition costs in the direct cost pool. The SCO’s claiming instructions exclude these costs from the indirect cost rate calculation.
- The district’s direct cost pool included other outgo expenses from the Extended Opportunity Programs and Services expenditure activity. The SCO’s claiming instructions exclude other outgo expenses from the indirect cost rate calculation.

The parameters and guidelines state that districts may claim indirect costs in the manner described in the SCO’s claiming instructions.

The following table summarizes the audit adjustment based on the allowable indirect cost rate:

	Fiscal Year 2004-05
Allowable direct costs	\$ 383,993
Allowable indirect cost rate	× 27.72%
Allowable indirect costs	\$ 106,443
Indirect costs claimed	(59,135)
Audit adjustment	\$ 47,308

Recommendation

We recommend that the district calculate its indirect cost rates in accordance with the SCO’s claiming instructions.

District’s Response

The district did not respond to the audit finding.

**State Controller's Office
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