

SOUTHWESTERN 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, 2003



STEVE WESTLY
California State Controller

September 2005



STEVE WESTLY
California State Controller

September 23, 2005

Norma L. Hernandez
Superintendent/President
Southwestern Community College District
900 Otay Lakes Road, Room 100
Chula Vista, CA 91910

Dear Ms. Hernandez:

The State Controller's Office audited the costs claimed by the Southwestern 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, 2000, through June 30, 2003.

The district claimed \$666,599 for the mandated program. Our audit disclosed that \$311,418 is allowable and \$355,181 is unallowable. The unallowable costs occurred because the district overstated indirect costs and understated offsetting revenues. The State paid the district \$144,968. The State will pay allowable costs claimed that exceed the amount paid, totaling \$166,450, contingent upon available appropriations.

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/ams

cc: Tom Beasley, Director
Fiscal Services
Southwestern Community College District
Marty Rubio, Specialist
Fiscal Accountability Section
California Community Colleges Chancellor's Office
Jeannie Oropeza, Program Budget Manager
Education Systems Unit
Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Southwestern 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, 2000, through June 30, 2003. The last day of fieldwork was February 11, 2005.

The district claimed \$666,599 for the mandated program. Our audit disclosed that \$311,418 is allowable and \$355,181 is unallowable. The unallowable costs occurred because the district overstated indirect costs and understated offsetting revenues. The State paid the district \$144,968. The State will pay allowable costs claimed that exceed the amount paid, totaling \$166,450, contingent upon 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 to provide health supervision and services and 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 the same 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 same 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 same 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, 2000, through June 30, 2003.

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* Section 17558.5. 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 Southwestern Community College District claimed \$666,599 for costs of the Health Fee Elimination Program. Our audit disclosed that \$311,418 is allowable and \$355,181 is unallowable.

For fiscal year (FY) 2000-01, the State paid the district \$86,581. Our audit disclosed that \$147,264 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$60,683, contingent upon available appropriations.

For FY 2001-02, the State paid the district \$58,387. Our audit disclosed that \$85,229 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$26,842, contingent upon available appropriations.

For FY 2002-03, the State made no payments to the district. Our audit disclosed that \$78,925 is allowable. The State will pay allowable costs claimed, totaling \$78,925, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on July 13, 2005. Thomas Beasley, Director of Fiscal Services, responded by letter dated August 11, 2005 (Attachment) agreeing with the audit results. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the Southwestern Community College District, the California Department of Education, 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, 2000, through June 30, 2003**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ 249,845	\$ 249,845	\$ —	
Services and supplies	54,155	54,155	—	
Subtotals	304,000	304,000	—	
Indirect costs	151,179	124,248	(26,931)	Finding 1
Subtotals, health expenditures	455,179	428,248	(26,931)	
Less offsetting savings/reimbursements	(174,002)	(280,984)	(106,982)	Finding 2
Total program costs	<u>\$ 281,177</u>	147,264	<u>\$ (133,913)</u>	
Less amount paid by the State		(86,581)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 60,683</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 260,810	\$ 260,810	\$ —	
Services and supplies	45,814	45,814	—	
Subtotals	306,624	306,624	—	
Indirect costs	167,723	129,701	(38,022)	Finding 1
Subtotals, health expenditures	474,347	436,325	(38,022)	
Less offsetting savings/reimbursements	(240,204)	(351,096)	(110,892)	Finding 2
Total program costs	<u>\$ 234,143</u>	85,229	<u>\$ (148,914)</u>	
Less amount paid by the State		(58,387)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 26,842</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Salaries and benefits	\$ 249,186	\$ 249,186	\$ —	
Services and supplies	52,345	52,345	—	
Subtotals	301,531	301,531	—	
Indirect costs	167,723	136,305	(31,418)	Finding 1
Subtotals, health expenditures	469,254	437,836	(31,418)	
Less offsetting savings/reimbursements	(317,975)	(358,911)	(40,936)	Finding 2
Total program costs	<u>\$ 151,279</u>	78,925	<u>\$ (72,354)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 78,925</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2000, through June 30, 2003</u>				
Salaries and benefits	\$ 759,841	\$ 759,841	\$ —	
Services and supplies	<u>152,314</u>	<u>152,314</u>	<u>—</u>	
Subtotals	912,155	912,155	—	
Indirect costs	<u>486,625</u>	<u>390,254</u>	<u>(96,371)</u>	Finding 1
Subtotals, health expenditures	1,398,780	1,302,409	(96,371)	
Less offsetting savings/reimbursements	<u>(732,181)</u>	<u>(990,991)</u>	<u>(258,810)</u>	Finding 2
Total program costs	<u>\$ 666,599</u>	311,418	<u>\$ (355,181)</u>	
Less amount paid by the State		<u>(144,968)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 166,450</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated indirect costs

The district overstated indirect costs in the amount of \$96,371 during the audit period.

The overstatement occurred because the district improperly applied its claimed indirect cost rate to direct services and supplies costs. The district used indirect cost rates of 49.73% for FY 2000-01 and FY 2001-02, and 54.7% for FY 2002-03 that were based upon Office of Management and Budget (OMB) Circular A-21 and approved by the U.S. Department of the Navy. The approval letters, dated June 4, 2001, and September 25, 2002, stated that the district's indirect cost rates used a base consisting of "Direct Salaries and Wages." During the audit period, the district improperly applied the indirect cost rates to direct services and supplies costs.

In addition, the district erroneously used the indirect cost rate of 54.7%, which was approved only for costs claimed in FY 2002-03 and FY 2003-04, in its FY 2001-02 claim. The district also erroneously claimed indirect costs on its FY 2002-03 claim in an amount identical to that of the previous year. The district explained that the FY 2001-02 form was used as a template in preparing the FY 2002-03 claim and the amounts had not been changed from the previous year.

The unallowable indirect costs are calculated as follows.

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Services and supplies	\$ 249,845	\$ 201,840	\$ 200,295	
Indirect cost rate	× 49.73%	× 49.73%	× 54.70%	
Allowable indirect costs	\$ 124,248	\$ 129,701	\$ 136,305	
Less claimed indirect costs	<u>(151,179)</u>	<u>(167,723)</u>	<u>(167,723)</u>	
Audit adjustment	<u>\$ (26,931)</u>	<u>\$ (38,022)</u>	<u>\$ (31,418)</u>	<u>\$ (96,371)</u>

Parameters and Guidelines states that indirect costs may be claimed in the manner described in the SCO claiming instructions. The SCO claiming instructions state that community college districts using an indirect cost rate proposal (ICRP) prepared in accordance with OMB Circular A-21 must obtain federal approval of the ICRP.

The SCO *Mandated Cost Manual* states that indirect costs must be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived by the mandate.

OMB Circular A-21 methodology allows colleges and universities to calculate their indirect cost rate under the simplified method using either salaries and wages or modified total direct costs as a base. The district's indirect cost rate was proposed and negotiated based on salaries and wages, not on modified total direct costs. The appropriate rate application base is shown on the rate agreement. The district must adhere to its rate agreement in claiming reimbursement of indirect costs.

Recommendation

The district should implement policies and procedures to ensure that the A-21 indirect cost rate is applied only to the costs that are included in the base of the indirect cost rate calculation.

District's Response

The District was of the understanding that the Federal indirect cost rate could be applied to claimed direct services and supplies cost. We will review policies and procedures of the A-21 indirect cost rate and its applications.

SCO's Comment

The finding and recommendation remain unchanged.

**FINDING 2—
Understated
authorized health fee
revenues claimed**

The district understated offsetting health fee revenues by \$258,810 during the audit period.

Authorized revenues reported were understated primarily because the district understated the authorized per student health fee for all nine semesters of the audit period. In addition, the district understated the number of full-time students subject to health fees by 300 for the fall semester of 2002. The unallowable costs were calculated as follows.

	Semester			Total
	Summer	Fall	Spring	
<u>Fiscal Year 2000-01</u>				
Full-time students:				
Number of students net of allowable health fee exemptions:				
Per audit	(1,343)	(3,180)	(2,996)	
Authorized student health fee	× \$ 8	× \$ 11	× \$ 11	
Subtotal	\$ (10,744)	\$ (34,980)	\$ (32,956)	
Per claim	1,343	3,180	2,996	
Claimed student health fee	× \$ 7	× \$ 11	× \$ 11	
Subtotal	\$ 9,401	\$ 34,980	\$ 32,956	
Audit adjustment, full-time students	\$ (1,343)	\$ —	\$ —	\$ (1,343)
Part-time students:				
Number of students net of allowable health fee exemptions:				
Per audit	(3,453)	(8,176)	(7,704)	
Authorized student health fee	× \$ 8	× \$ 11	× \$ 11	
Subtotal	\$ (27,624)	\$ (89,936)	\$ (84,744)	
Per claim	3,453	8,176	7,704	
Claimed student health fee	× \$ 5	× \$ 5	× \$ 5	
Subtotal	\$ 17,265	\$ 40,880	\$ 38,520	
Audit adjustment, part-time students	\$ (10,359)	\$ (49,056)	\$ (46,224)	(105,639)
Total audit adjustment, FY 2000-01				(106,982)

	Semester			Total
	Summer	Fall	Spring	
<u>Fiscal Year 2001-02</u>				
Full-time students:				
Number of students net of allowable health fee exemptions:				
Per audit	(1,726)	(7,006)	(6,706)	
Authorized student health fee	× \$ 9	× \$12	× \$12	
Subtotal	\$ (15,534)	\$ (84,072)	\$ (80,472)	
Per claim	1,726	7,006	6,706	
Claimed student health fee	× \$ 7	× \$11	× \$11	
Subtotal	\$ 12,082	\$ 77,066	\$ 73,766	
Audit adjustment, full-time students	\$ (3,452)	\$ (7,006)	\$ (6,706)	(17,164)
Part-time students:				
Number of students net of allowable health fee exemptions:				
Per audit	(4,826)	(5,342)	(5,290)	
Authorized student health fee	× \$ 9	× \$12	× \$12	
Subtotal	\$ (43,434)	\$ (37,394)	\$ (63,480)	
Per claim	4,826	5,342	5,290	
Claimed student health fee	× \$ 5	× \$ 5	× \$ 5	
Subtotal	\$ 24,130	\$ 26,710	\$ 26,450	
Audit adjustment, part-time students	\$ (19,304)	\$ (64,104)	\$ (37,030)	(93,728)
Total audit adjustment, FY 2001-02				(110,892)
<u>Fiscal Year 2002-03</u>				
Full-time students:				
Number of students net of allowable health fee exemptions:				
Per audit	(5,147)	(7,651)	(7,005)	
Authorized student health fee	× \$ 9	× \$12	× \$12	
Subtotal	\$ (46,323)	\$ (91,812)	\$ (84,060)	
Per claim	6,739	7,351	7,005	
Claimed student health fee	× \$ 8	× \$12	× \$12	
Subtotal	\$ 53,912	\$ 88,212	\$ 84,060	
Audit adjustment, full-time students	\$ 7,589	\$ (3,600)	\$ —	3,989
Part-time students:				
Number of students net of allowable health fee exemptions:				
Per audit	(1,592)	(5,239)	(4,960)	
Authorized student health fee	× \$ 9	× \$12	× \$12	
Subtotal	\$ (14,328)	\$ (62,868)	\$ (59,520)	
Per claim	—	5,239	4,960	
Claimed student health fee	× \$ 8	× \$ 9	× \$ 9	
Subtotal	\$ —	\$ 47,151	\$ 44,640	
Audit adjustment	\$ (14,328)	\$ (15,717)	\$ (14,880)	(44,925)
Total audit adjustment FY 2002-03				(40,936)
Total audit adjustment				\$ (258,810)

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 students 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. (*Education Code* Section 76355(a) increased authorized health fees by \$1 beginning with the Summer 2001 session.)

Also, *Government Code* Section 17514 states that costs mandated by the State are any increased costs that a school district is required to incur. The costs that school districts can recover by charging a fee are not reimbursable mandated costs. In addition, *Government Code* Section 17556 states that COSM 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 deduct authorized health service fees from allowable health service program costs on the mandate claim. We also recommend the district ensure that only those students who meet the requirements of *Education Code* Section 76355(c) are exempted when calculating authorized student health fees for the Health Fee Elimination mandate program.

District's Response

The District charges a lower health fee for part-time than full-time students. We will review our policies and procedures regarding deductible authorized health fee.

SCO's Comment

The finding and recommendation remain unchanged.

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



Norma L. Hernandez
Superintendent/President

Governing Board
David J. Agosto
Christine Aranda, Ed.D.
Jean Roesch, Ed.D.
Yolanda Salcido
Terri Valladolid

August 11, 2005

Mr. Jim C. Spano
Chief Compliance Audits Bureau
State Controllers Office
Division of Audits
300 Comfort Mall, Suite 514
Sacramento, CA 95814

Dear Mr. Spano:

Enclosed is the District's response to the draft report on the Health Fee Elimination Mandated Cost Audit.

If you have any questions, please contact me at (619) 482-6309.

Sincerely,

Thomas Beasley
Director of Fiscal Services

TB:jr

Enclosure

c: Debra Fitzsimons
Vice President for Administrative Affairs

Finding #1

The District overstated indirect cost in the amount of \$96,371 during the audit period.

Response

The District was of the understanding that the Federal indirect cost rate could be applied to claimed direct services and supplies cost. We will review policies and procedures of the A-21 indirect cost rate and its applications.

Finding #2

The District understated offsetting health fee revenues by \$258,810 during the audit period.

Response

The District charges a lower health fee for part-time than full-time students. We will review our policies and procedures regarding deductible authorized health fee.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>