

# **COAST COMMUNITY COLLEGE DISTRICT**

Revised Audit Report

## **HEALTH FEE ELIMINATION PROGRAM**

Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session,  
and Chapter 1118, Statutes of 1987

*July 1, 2002, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

September 2010



**JOHN CHIANG**  
**California State Controller**

September 10, 2010

Jim Moreno, President  
Board of Trustees  
Coast Community College District  
1370 Adams Avenue  
Costa Mesa, CA 92626

Dear Mr. Moreno:

The State Controller's Office audited the costs claimed by Coast Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2006.

This revised final report supersedes our previous report dated October 28, 2009. We revised Finding 3 to correct errors in the allowable indirect cost rates for fiscal year (FY) 2004-05 and FY 2005-06. As a result, allowable costs increased by \$58,508 for the audit period.

The district claimed \$1,892,316 for the mandated program. Our audit disclosed that \$1,502,965 is allowable and \$389,351 is unallowable. The costs are unallowable primarily because the district claimed ineligible costs, understated offsetting revenues, and understated indirect costs. The State paid the district \$283,619. Allowable costs claimed exceed the amount paid by \$1,219,346.

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: Ding-Jo H. Currie, Ph.D., Chancellor  
Coast Community College District  
Kimberly Allen  
Administrative Director  
Coast Community College District  
Christine Atalig, Auditor  
Fiscal Services Unit  
California Community Colleges Chancellor's Office  
Thomas Todd, Principal Program Budget Analyst  
Education Systems Unit  
Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

# Contents

## Revised Audit Report

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>2</b>
<b>Views of Responsible Official .....</b>	<b>3</b>
<b>Restricted Use .....</b>	<b>3</b>
<b>Revised Schedule 1—Summary of Program Costs .....</b>	<b>4</b>
<b>Revised Findings and Recommendations .....</b>	<b>7</b>
<b>Attachment—District’s Response to Draft Audit Report</b>	

# Revised Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Coast Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session, and Chapter 1118, Statutes of 1987) for the period of July 1, 2002, through June 30, 2006.

The district claimed 1,892,316 for the mandated program. Our audit disclosed that \$1,502,965 is allowable and \$389,351 is unallowable. The costs are unallowable because the district claimed ineligible costs, understated offsetting revenues, and understated indirect costs. The State paid the district \$283,619. Allowable costs claimed exceed the amount paid by \$1,219,346.

## Background

Chapter 1, Statutes of 1984, 2<sup>nd</sup> 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 for FY 1987-88 and for each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (CSM) determined that Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session imposed a "new program" upon community college districts by requiring community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year for FY 1984-85 and for 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 for each fiscal year thereafter.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The 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, 2006.

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 this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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, Coast Community College District claimed \$1,892,316 for costs of the Health Fee Elimination Program. Our audit disclosed that \$1,502,965 is allowable and \$389,351 is unallowable.

For the FY 2002-03 claim, the State paid the district \$283,619. Our audit disclosed that \$227,943 is allowable. The State will offset \$55,676 from other mandated program payments due 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 \$414,232 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$414,232, contingent upon available appropriations.

For the FY 2004-05 claim, the State made no payment to the district. Our audit disclosed that \$458,400 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$458,400, contingent upon available appropriations.

For the FY 2005-06 claim, the State made no payment to the district. Our audit disclosed that \$402,390 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$402,390, contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft audit report on September 9, 2009. Kimberly Allen, Administrative Director-Fiscal Affairs, responded by letter dated September 17, 2009 (Attachment), agreeing with the audit results.

We issued a final audit report on October 28, 2009. Subsequently, we revised Finding 3 to recalculate allowable indirect cost rates for FY 2004-05 and FY 2005-06. As a result, we revised the understated indirect costs in Finding 3 by \$112,685, from \$97,484 to \$210,169. The adjustment did not affect FY 2004-05, as allowable costs exceed the amount claimed. However, for FY 2005-06, the adjustment increased allowable costs by \$58,508. We advised Ms. Allen of the revisions on August 6, 2010. She responded by e-mail on August 24, 2010, agreeing with the revisions to the audit report.

**Restricted Use**

This report is solely for the information and use of Coast 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

September 10, 2010

**Revised Schedule 1—  
Summary of Program Costs  
July 1, 2002, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries	\$ 683,308	\$ 683,308	\$ —	
Benefits	162,131	162,131	—	
Services and supplies	230,069	229,065	(1,004)	Finding 1
Less costs of services that exceed services provided in FY 1986-87 base year	—	(20,811)	(20,811)	Finding 2
Total direct costs	1,075,508	1,053,693	(21,815)	
Indirect costs	286,989	281,881	(5,108)	Finding 3
Total direct and indirect costs	1,362,497	1,335,574	(26,923)	
Less authorized health service fees	(1,078,878)	(1,105,404)	(26,526)	Finding 4
Less offsetting revenues/reimbursements	—	(2,227)	(2,227)	Finding 5
Total program costs	<u>\$ 283,619</u>	227,943	<u>\$ (55,676)</u>	
Less amount paid by the State		(283,619)		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ (55,676)</u>	
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries	\$ 580,753	\$ 580,753	\$ —	
Benefits	177,126	177,126	—	
Services and supplies	398,159	328,238	(69,921)	Finding 1
Less costs of services that exceed services provided in FY 1986-87 base year	—	(15,638)	(15,638)	Finding 2
Total direct costs	1,156,038	1,070,479	(85,559)	
Indirect costs	276,657	242,762	(33,895)	Finding 3
Total direct and indirect costs	1,432,695	1,313,241	(119,454)	
Less authorized health service fees	(859,242)	(890,391)	(31,149)	Finding 4
Less offsetting revenues/reimbursements	—	(8,618)	(8,618)	Finding 5
Total program costs	<u>\$ 573,453</u>	414,232	<u>\$ (159,221)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ 414,232</u>	



## Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries	\$ 655,107	\$ 655,107	\$ —	
Benefits	194,211	194,211	—	
Services and supplies	297,869	289,129	(8,740)	Finding 1
Less costs of services that exceed services provided in FY 1986-87 base year	—	(16,788)	(16,788)	Finding 2
Total direct costs	1,147,187	1,121,659	(25,528)	
Indirect costs	275,145	408,845	133,700	Finding 3
Total direct and indirect costs	1,422,332	1,530,504	108,172	
Less authorized health service fees	(963,932)	(930,800)	33,132	Finding 4
Less offsetting revenues/reimbursements	—	(10,700)	(10,700)	Finding 5
Subtotal	458,400	589,004	130,604	
Less allowable costs that exceed costs claimed	—	(130,604)	(130,604)	
Total program costs	<u>\$ 458,400</u>	458,400	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 458,400</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries	\$ 702,040	\$ 702,040	\$ —	
Benefits	200,253	200,253	—	
Services and supplies	297,153	288,416	(8,737)	Finding 1
Less costs of services that exceed services provided in FY 1986-87 base year	—	(29,848)	(29,848)	Finding 2
Total direct costs	1,199,446	1,160,861	(38,585)	
Indirect costs	293,731	409,203	115,472	Finding 3
Total direct and indirect costs	1,493,177	1,570,064	76,887	
Less authorized health service fees	(916,333)	(1,154,656)	(238,323)	Finding 4
Less offsetting revenues/reimbursements	—	(13,018)	(13,018)	Finding 5
Total program costs	<u>\$ 576,844</u>	402,390	<u>\$ (174,454)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 402,390</u>		

## Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>Summary: July 1, 2002, through June 30, 2006</u>				
Direct costs:				
Salaries	\$ 2,621,208	\$ 2,621,208	\$ —	
Benefits	733,721	733,721	—	
Services and supplies	1,223,250	1,134,848	(88,402)	
Less costs of services that exceed services provided in FY 1986-87 base year	—	(83,085)	(83,085)	
Total direct costs	4,578,179	4,406,692	(171,487)	
Indirect costs	1,132,522	1,342,691	210,169	
Total direct and indirect costs	5,710,701	5,749,383	38,682	
Less authorized health service fees	(3,818,385)	(4,081,251)	(262,866)	
Less offsetting revenues/reimbursements	—	(34,563)	(34,563)	
Subtotal	1,892,316	1,633,569	(258,747)	
Less allowable costs that exceed costs claimed	—	(130,604)	(130,604)	
Total program costs	<u>\$ 1,892,316</u>	1,502,965	<u>\$ (389,351)</u>	
Less amount paid by the State		(283,619)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,219,346</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Revised Findings and Recommendations

**FINDING 1—  
Overstated services  
and supplies**

The district overstated services and supplies costs totaling \$88,402 for the audit period. The overstatements occurred because the district included costs for catastrophic insurance coverage for athletes in its reimbursement claims. The costs for athlete insurance are not eligible for reimbursement; the district believed that these costs were eligible for reimbursement when it prepared its claims.

The following table shows the athletic insurance calculation and audit adjustment for each fiscal year:

	Fiscal Year				Total
	2002-03	2003-04	2004-05	2005-06	
Student insurance basic coverage	\$ 108,203	\$ 109,285	\$ 104,785	\$ 117,829	
Catastrophic coverage for students	4,314	4,530	4,530	4,530	
Total student insurance	112,517	113,815	109,315	122,359	
Less insurance costs claimed	(113,521)	(183,736)	(118,055)	(131,096)	
Total audit adjustment	\$ (1,004)	\$ (69,921)	\$ (8,740)	\$ (8,737)	\$ (88,402)

The program’s parameters and guidelines (section III, Eligible Claimants) state that eligible claimants are community college districts which provided health services in the 1986-87 fiscal year and continue to provide the same services as a result of this mandated program.

The parameters and guidelines (section V.B., Reimbursable Costs, Reimbursable Activities), also state that the following cost items related to insurance are reimbursable: “(1) on-campus accident, (2) voluntary, and (3) insurance inquiry/claim administration.”

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

Recommendation

The district should ensure that all costs claimed are in accordance with the program’s parameters and guidelines.

District’s Response

The district agreed with the finding.

**FINDING 2—  
Ineligible health cost items**

The district claimed ineligible health cost items totaling \$83,085 for the audit period (\$47,240 in salaries and benefits, and \$35,845 in services and supplies). We determined that the district did not deduct the costs of providing current fiscal year health cost items that are in excess of the level provided in the FY 1986-87 base year.

The following list summarizes health cost items in excess of the level provided in the FY 1986-87 base year by the individual colleges:

Coastline Community College

Acne Surgery	Exc Ben Les Trunk; 0.5 cm
Adult 40-64 yrs old (physical)	IV Infusion Therapy/DX-by
Albuterol Inhaler	IV Tubing Set
Ankle 3 View/Complete	Knee Support Hinged
Antibiotic inj. Administr	Nebulizer Treatment
Anti-Thyroid Microsomal A	Tennis Elbow Blk w/ gel Ec
Arm Sling Deluxe	Therap activ to imprv fun
Brow Shaping Wax Service	Therap Proc 1/> areas eal
Exc Ben Les Fac; 1.1 to	Therapeutic Inj. Admini
Exc Ben Les Scalp; 0.6 to	Walker boot: low profile
Exc Ben Les Scalp; 1.1 to	

Orange Coast College

Physical - Allied  
Physical - General  
Physical - Mini  
Hepatitis B

Golden West College

Hepatitis A  
Hepatitis B  
HPV  
Other Physical  
Physical Exam Intake

The parameters and guidelines (section III, Eligible Claimants) state that community college districts that provided health services in FY 1986-87 and continue to provide the same services as a result of this mandate are eligible to claim reimbursement of those costs.

The parameters and guidelines (section V.A., Reimbursable Costs, Scope of the Mandate) state that eligible community college districts shall be reimbursed for the costs of providing a health services program. Only services provided in FY 1986-87 may be claimed.

The parameters and guidelines (section V.B., Reimbursable Costs, Reimbursable Activities) lists cost items that are reimbursable to the extent they were provided by the district in FY 1986-87.

For Orange Coast College, we determined that the college provided excess health cost items in FY 2002-03, FY 2003-04, and FY 2005-06; therefore, those cost items are unallowable. In order to determine the unallowable costs, we calculated the percentage of unallowable cost items. The unallowable percentages were then multiplied by claimed salaries and benefits to determine unallowable costs.

For Golden West College, we determined that the college provided excess health cost items in FY 2005-06; therefore, those cost items are unallowable. The college did not document the health cost items that it provided in FY 2002-03 and FY 2004-05 due to changes in its computer system. Based on evidence from the current and prior SCO audits, we determined that the college also provided excess cost items for these two

years. In consultation with district representatives, we calculated a percentage of unallowable health cost items based on an average of documented unallowable health cost items. This calculation was based on the average of unallowable cost item percentages from the prior SCO audit for FY 2000-01 (4.47%) and FY 2001-02 (4.57%), and the current audit for FY 2003-04 (0.00%) and FY 2005-06 (4.17%). We took the total of all four years, divided by four, and determined an unallowable percentage of 3.30% for FY 2002-03 and FY 2004-05. We then multiplied the unallowable percentage by salaries and benefits claimed to determine unallowable costs. If the college subsequently provides the actual number of health cost items that it provided during FY 2002-03 and FY 2004-05, we will modify the calculation accordingly.

For Coastline Community College, we identified that the college provided excess health cost items during all three years of the audit period; therefore, those cost items are unallowable. Coastline Community College contracts with Memorial Prompt Care to provide health services for students because it does not operate a health service center on campus. The cost of the contract is the amount that the college collects for student health fees during the year. Accordingly, we multiplied the unallowable cost item percentage times the actual health cost item fees collected by the college during each fiscal year to determine the unallowable costs.

The following table shows the excess cost items calculation and audit adjustment for each fiscal year:

	Orange Coast College	Golden West College	Coastline College	Total
<u>Fiscal Year 2002-03</u>				
Salaries and benefits claimed	\$ 553,548	\$ 291,891	\$ —	
Contracted health services claimed	—	—	89,244	
Percentage of current year health cost items that exceed cost items provided in FY 1986-87	× (0.97)%	× (3.30)%	× (6.51)%	
Audit adjustment	<u>\$ (5,369)</u>	<u>\$ (9,632)</u>	<u>\$ (5,810)</u>	\$ (20,811)
<u>Fiscal Year 2003-04</u>				
Salaries and benefits claimed	\$ 546,421	\$ 211,458	\$ —	
Contracted health services claimed	—	—	187,998	
Percentage of current year health cost items that exceed cost items provided in FY 1986-87	× (0.66)%	× 0.00%	× (6.40)%	
Audit adjustment	<u>\$ (3,606)</u>	<u>\$ —</u>	<u>\$ (12,032)</u>	(15,638)
<u>Fiscal Year 2004-05</u>				
Salaries and benefits claimed	\$ 552,842	\$ 296,477	\$ —	
Contracted health services claimed	—	—	152,600	
Percentage of current year health cost items that exceed cost items provided in FY 1986-87	× 0.00%	× 3.30%	× (4.59)%	
Audit adjustment	<u>\$ —</u>	<u>\$ (9,784)</u>	<u>\$ (7,004)</u>	(16,788)
<u>Fiscal Year 2005-06</u>				
Salaries and benefits claimed	\$ 586,777	\$ 315,517	\$ —	
Contracted health services claimed	—	—	127,307	
Percentage of current year health cost items that exceed cost items provided in FY 1986-87	× (0.97)%	× (4.17)%	× (8.64)%	
Audit adjustment	<u>\$ (5,692)</u>	<u>\$ (13,157)</u>	<u>\$ (10,999)</u>	(29,848)
Total audit adjustment				<u>\$ (83,085)</u>

Recommendation

We recommend that the district ensure that all costs claimed are in accordance with the program's parameters and guidelines.

District's Response

The district agreed with the finding.

**FINDING 3—  
Misstated indirect  
costs**

The district understated indirect costs by the net amount of \$210,169 for the audit period (overstated by \$39,003 and understated by \$249,172). The costs were overstated by \$39,003 because the district applied its federally approved Office of Management and Budget (OMB) Circular A-21 indirect cost rate to the incorrect cost base for FY 2002-03 and FY 2003-04. The costs were understated by \$249,172 because, for FY 2004-05 and FY 2005-06, the district incorrectly claimed indirect costs by using the OMB Circular A-21 methodology instead of the SCO FAM-29C rate.

The district claimed indirect costs using a federally approved OMB Circular A-21 rate for all four years of the audit period. The approved rate was based on employee salaries; however, the district incorrectly applied the rate to costs in excess of salaries for FY 2003-04. We were unable to determine, and the district did not identify, what costs the district used in excess of salaries when it applied its indirect cost rate. For FY 2002-03 and FY 2003-04, we recomputed indirect costs by multiplying allowable salaries by the approved rate of 42%. There was no adjustment for Coastline College because the district contracts with Memorial Prompt Care for services. Consequently, the district did not incur any costs for salaries and benefits for that health center.

The parameters and guidelines and the SCO's claiming instructions do not allow the use of a federally approved rate for FY 2004-05 and beyond. Therefore, we re-calculated allowable indirect cost rates based on the FAM-29C methodology that the parameters and guidelines and the SCO's claiming instructions allow. The FAM-29C rate was 36.45% for FY 2004-05 and 35.25% FY 2005-06.

The following table summarizes the audit adjustments:

	Orange Coast College	Golden West College	Coastline College	Total
<u>Fiscal Year 2002-03</u>				
Allowable salaries and wages	\$441,507	\$229,639	\$ —	
Federally approved indirect cost rate	× 42%	× 42%	× 0%	
Allowable indirect costs	<u>\$185,433</u>	<u>\$ 96,448</u>	<u>\$ —</u>	\$ 281,881
Less indirect costs claimed				<u>(286,989)</u>
Audit adjustment				<u>(5,108)</u>
<u>Fiscal Year 2003-04</u>				
Allowable salaries and wages	\$413,427	\$164,579	\$ —	
Federally approved indirect cost rate	× 42%	× 42%	× 0%	
Allowable indirect costs	<u>\$173,639</u>	<u>\$ 69,123</u>	<u>\$ —</u>	\$ 242,762
Less indirect costs claimed				<u>(276,657)</u>
Audit adjustment				<u>(33,895)</u>

	Orange Coast College	Golden West College	Coastline College	Total
<u>Fiscal Year 2004-05</u>				
Allowable direct costs	\$623,534	\$326,367	\$171,758	
FAM-29C indirect cost rate	× 36.45%	× 36.45%	× 36.45%	
Allowable indirect costs	<u>\$227,278</u>	<u>\$118,961</u>	<u>\$ 62,606</u>	\$ 408,845
Less indirect costs claimed				(275,145)
Audit adjustment				<u>133,700</u>
<u>Fiscal Year 2005-06</u>				
Allowable direct costs	\$657,618	\$339,465	\$163,778	
FAM-29C indirect cost rate	× 35.25%	× 35.25%	× 35.25%	
Allowable indirect costs	<u>\$231,810</u>	<u>\$119,661</u>	<u>\$ 57,732</u>	\$ 409,203
Less indirect costs claimed				(293,731)
Audit adjustment				<u>115,472</u>
Total audit adjustment				<u>\$ 210,169</u>

The parameters and guidelines (section VI.B.3, Claim Preparation, Allowable Overhead Cost) state that indirect costs may be claimed in the manner described by the State Controller in his claiming instructions.

For FY 2002-03 and FY 2003-04, the SCO's claiming instructions state:

A college has the option of using a federally approved rate, utilizing the cost accounting principles from Office of Management and Budget Circular A-21 "Cost Principles for Educational Institutions," or the Controller's [FAM-29C] methodology. . . .

For FY 2004-05 forward, the SCO's claiming instructions state:

A CCD [community college district] may claim indirect costs using the Controller's methodology [FAM-29C]. . . . If specifically allowed by a mandated program's P's and G's [parameters and guidelines], a district may alternately choose to claim indirect costs using either (1) a federally approved rate prepared in accordance with Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*; or (2) a flat 7% rate.

### Recommendation

We recommend that the district ensure that all costs claimed are in accordance with the program's parameters and guidelines. We also recommend that the district claim indirect costs based on indirect costs rates computed in accordance with the SCO's claiming instructions. The district should prepare its ICRPs using the SCO's Form FAM-29C.

### District's Response

The district agreed with the finding.

### SCO's Comment

Subsequent to the issuance of the final audit report issued October 28, 2009, we revised the allowable indirect cost rates for FY 2004-05 and FY 2005-06. Our original calculations excluded allowable depreciation expense incurred by the district for capitol assets as an indirect cost on

Form FAM-29C. We obtained the depreciation amounts of \$6,323,796 from Note 4 of the district's Financial Statements for FY 2004-05 and the depreciation amounts of \$6,764,750 from Note 6 of the district's Financial Statements for FY 2005-06. This increased the indirect cost rate for those two fiscal years to 36.45% in FY 2004-05 and to 35.25% in FY 2005-06. As a result, we revised the understated indirect costs by \$112,685, from \$97,484 to \$210,169.

Our recommendation is unchanged.

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

The district misstated authorized health service fees by \$262,866 for the audit period. The misstatements occurred because the district claimed costs using student enrollment and Board of Governors Grant (BOGG) recipient data that did not agree with data that the district reported to the California Community Colleges Chancellor's Office (CCCCO). As a result, the district understated the number of students subject to health fees by 19,931 during the audit period.

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 a community college district can charge a fee, they are not required to incur a cost. In addition, Government Code section 17556(d) states that the Commission on State Mandates shall not find costs mandated by the State if the school district has the authority to levy service charges, fees, or assessments sufficient to pay for the mandated program or increased level of service.

Education Code section 76355, subdivision (c), states that health fees are authorized for all students except those who: (1) depend exclusively upon prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need. The CCCCCO identified the fees authorized by Education Code section 76355, subdivision (a). The authorized fees for each summer term are \$9 for FY 2002-03 and FY 2003-04, \$10 for FY 2004-05, and \$11 for FY 2005-06. The authorized fees for each fall and spring semester are \$12 for FY 2002-03 and FY 2003-04, \$13 for FY 2004-05, and \$14 for FY 2005-06.

In order to calculate authorized health service fee revenue, we obtained student enrollment and Board of Governors Grant (BOGG) recipient data from the CCCCCO. The CCCCCO identified the district's enrollment based on the CCCCCO's MIS data element STD7, codes A through G. The CCCCCO eliminated any duplicate students based on their social security numbers. From the district enrollment, the CCCCCO identified the number of BOGG recipients based on MIS data element SF21, all codes with first letter B or F, and the number of apprenticeship enrollees based on data element SB23, code 1. Effective January 1, 2006, Education Code section 76355, subdivision (c), no longer excludes students who have a financial need.



The following table shows the authorized health services fees calculation and audit adjustment:

	Summer Session	Fall Semester	Spring Semester	Total
<u>Fiscal Year 2002-03</u>				
Student enrollment	28,706	48,677	46,636	
Less BOGG waivers	<u>(5,418)</u>	<u>(10,485)</u>	<u>(10,177)</u>	
Subtotal	23,288	38,192	36,459	
Authorized health service fee rate	× \$ (9)	× \$(12)	× \$(12)	
Authorized health service fees	<u>\$ (209,592)</u>	<u>\$ (458,304)</u>	<u>\$ (437,508)</u>	\$ (1,105,404)
Less authorized health service fees claimed				<u>1,078,878</u>
Audit adjustment				<u>(26,526)</u>
<u>Fiscal Year 2003-04</u>				
Student enrollment	13,259	43,913	44,492	
Less BOGG waivers	<u>(3,408)</u>	<u>(10,632)</u>	<u>(10,962)</u>	
Subtotal	9,851	33,281	33,530	
Authorized health service fee rate	× \$ (9)	× \$(12)	× \$(12)	
Authorized health service fees	<u>\$ (88,659)</u>	<u>\$ (399,372)</u>	<u>\$ (402,360)</u>	(890,391)
Less authorized health service fees claimed				<u>859,242</u>
Audit adjustment				<u>(31,149)</u>
<u>Fiscal Year 2004-05</u>				
Student enrollment	16,417	44,873	43,320	
Less BOGG waivers	<u>(4,821)</u>	<u>(12,767)</u>	<u>(12,746)</u>	
Subtotal	11,596	32,106	30,574	
Authorized health service fee rate	× \$(10)	× \$(13)	× \$(13)	
Authorized health service fees	<u>\$ (115,960)</u>	<u>\$ (417,378)</u>	<u>\$ (397,462)</u>	(930,800)
Less authorized health service fees claimed				<u>963,932</u>
Audit adjustment				<u>33,132</u>
<u>Fiscal Year 2005-06</u>				
Student enrollment	17,375	44,107	42,758	
Less BOGG waivers	<u>(5,519)</u>	<u>(13,705)</u>	<u>—</u>	
Subtotal	11,856	30,402	42,758	
Authorized health service fee rate	× \$(11)	× \$(14)	× \$(14)	
Authorized health service fees	<u>\$ (130,416)</u>	<u>\$ (425,628)</u>	<u>\$ (598,612)</u>	(1,154,656)
Less authorized health service fees claimed				<u>916,333</u>
Audit adjustment				<u>(238,323)</u>
Total audit adjustment				<u>\$ (262,866)</u>

### Recommendation

We recommend that the district deduct authorized health service fees from mandate-related costs claimed. To properly calculate authorized health service fees, we recommend that the district identify the number of enrolled students based on CCCC data element STD7, codes A through G. We also recommend that the district identify the number of apprenticeship program enrollees based on data elements SB23, code 1, and STD7, codes A through G.

In addition, we recommend that the district maintain documentation that identifies the number of students excluded from the health service fee based on Education Code section 76355, subdivision (c)(1). If the district excludes any students from receiving health services, the district should maintain contemporaneous documentation of a district policy that excludes those students and documentation identifying the number of students excluded.

District’s Response

The district agreed with the finding.

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

The district understated offsetting savings/reimbursements by \$34,563 for the audit period. The understatements occurred because Orange Coast College received health services revenue that was not reported in the district’s mandated cost claims.

Specifically, we identified that Orange Coast College health services revenues were not posted to its general ledger under health services (account #122-61302-64410 or account #122-61302-64430). Instead, the revenues were posted to a separate account called OCC–Ancillary (account #02-1000-1000-247500-6710). The district should have included these offsetting revenues in its mandated cost claims.

The following table summarizes the audit adjustment:

	Fiscal Years				Total
	2002-03	2003-04	2004-05	2005-06	
OCC–Ancillary					
Expenses	\$ 28,598	\$ 27,759	\$ 26,377	\$ 17,628	
Revenues	(30,825)	(36,377)	(37,077)	(30,646)	
Total audit adjustment	<u>\$ (2,227)</u>	<u>\$ (8,618)</u>	<u>\$ (10,700)</u>	<u>\$ (13,018)</u>	<u>\$ (34,563)</u>

The parameters and guidelines (section VIII, Offsetting Savings and Other Reimbursements) state that any offsetting savings the claimant experiences as a direct result of this statute must be deducted from the costs claimed. In addition, 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 report all offsetting savings/reimbursements attributable to its health services program.

District’s Response

The district agreed with the finding.

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

---

September 17, 2009

Jim L. Spano, Chief, Mandated Cost Audits Bureau  
State Controller's Office  
Division of Audits  
PO Box 942850  
Sacramento, CA 94250-5874

Dear Mr. Spano,

We have received the draft copy of the mandated cost audit for the Health Fee Elimination Program. The staff conducted the audit thoroughly and professionally. All findings were discussed and reviewed during the audit process and at the exit conference. Additional adjustments were made after consultation with district staff. The district is in agreement with all findings and adjustments for the claims years 2003 through 2006.

If you have any questions, please contact me at 714-438-4654.

Sincerely,



Kimberly Allen  
Administrative Director, Fiscal Affairs

cc: Ding-Jo Currie, Interim Chancellor  
Coast Community College District

Coastline Community College    Golden West College    Orange Coast College

Board of Trustees	714.438.4848	Environmental Health & Safety	714.438.4728	International Education	714.438.4703
Chancellor	714.438.4888	Human Resources	714.438.4707	Facilities	714.438.4646
Administrative Services	714.438.4736	Information Services	714.438.4747	Public Affairs	714.438.4606
Educational Services	714.438.4705	Instructional Services	714.438.4698	Purchasing	714.438.4686
Employment Benefits	714.438.4727	Internal Auditor	714.438.4602	Risk Services	714.438.4689

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

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