

# **GLENDALE COMMUNITY COLLEGE DISTRICT**

Audit Report

## **HEALTH FEE ELIMINATION PROGRAM**

Chapter 1, Statutes of 1984, 2<sup>nd</sup> E.S.,  
and Chapter 1118, Statutes of 1987

*July 1, 2000, through June 30, 2002*



**STEVE WESTLY**  
California State Controller

August 2004



**STEVE WESTLY**  
California State Controller

August 10, 2004

John Davitt, Ed.D.  
Superintendent/President  
Glendale Community College District  
1500 North Verdugo Road  
Glendale, CA 91208

Dear Dr. Davitt:

The State Controller's Office has completed an audit of the claims filed by Glendale Community College District for costs of 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, 2000, through June 30, 2002.

The district claimed \$615,749 for the mandated program. Our audit disclosed that \$484,702 is allowable and \$131,047 is unallowable. The unallowable costs occurred because the district claimed ineligible costs and understated other reimbursement offsets. The district was paid \$133,557. Allowable costs claimed in excess of the amount paid, totaling \$351,145, will be paid by the State based on available appropriations.

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

Sincerely,

*Original Signed By:*

VINCENT P. BROWN  
Chief Operating Officer

VPB:JVB/jj

cc: Ron Nakasone, Controller  
Glendale Community College District  
Ed Monroe, Program Assistant  
Fiscal Accountability Section  
Chancellor's Office  
California Community Colleges  
Jeannie Oropeza, Program Budget Manager  
Education Systems Unit  
Department of Finance  
Charles Pillsbury  
School Apportionment Specialist  
Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Glendale Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2<sup>nd</sup> Extraordinary Session (E.S.) and Chapter 1118, Statutes of 1987) for the period of July 1, 2000, through June 30, 2002. The last day of fieldwork was February 18, 2004.

The district claimed \$615,749 for the mandated program. The audit disclosed that \$484,702 is allowable and \$131,047 is unallowable. The unallowable costs occurred because the district claimed ineligible costs and understated other reimbursement offsets. The district was paid \$133,557. Allowable costs claimed in excess of the amount paid, totaling \$351,145, will be paid by the State based on available appropriations.

## Background

Chapter 1, Statutes of 1984, 2<sup>nd</sup> E.S., repealed *Education Code* Section 72246, which had authorized community college districts to charge a health fee for providing health supervision and services, direct and indirect medical and hospitalization services, and operation of 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, which would reinstate the community college district's authority to charge a health fee as specified. Chapter 1118, Statutes of 1987, amended *Education Code* Section 72246 to require 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, 2<sup>nd</sup> E.S., imposed a "new program" upon community college districts by requiring any community college district that provided health services for which it was authorized to charge a fee—pursuant to former *Education Code* Section 72246 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 services fee in FY 1983-84, regardless of the extent to which the health services fees collected offset the actual costs of providing health services at the FY 1983-84 level. 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, and required them to maintain that level in FY 1987-88 and each fiscal year thereafter.

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

## **Objective, Scope, and Methodology**

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the Health Fee Elimination Program (Chapter 1, Statutes of 1984, and Chapter 1118, Statutes of 1987) for the period of July 1, 2000, through June 30, 2002.

The auditor performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority provided for under *Government Code* Section 17558.5. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

The 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, Glendale Community College District claimed \$615,749 for costs of the legislatively mandated Health Fee Elimination Program. The audit disclosed that \$484,702 is allowable and \$131,047 is unallowable.

For FY 2000-01, the district was paid \$63,493 by the State. The audit disclosed that \$227,941 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$164,448, will be paid by the State based on available appropriations.

For FY 2001-02, the district was paid \$70,064 by the State. The audit disclosed that \$256,761 is allowable. Allowable costs claimed in excess of the amount paid, totaling \$186,697, will be paid by the State based on available appropriations.

### **Views of Responsible Officials**

The SCO issued a draft audit report on May 28, 2004. Ron Nakasone, Controller, responded by the attached letter dated June 14, 2004, agreeing with the audit results with the exception of Finding 2. The district's response is included in this final audit report.

### **Restricted Use**

This report is solely for the information and use of Glendale Community College District, 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, 2002

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ 324,107	\$ 324,107	\$ —	
Services and supplies	32,875	32,875	—	
Capital outlay	<u>54,796</u>	<u>54,796</u>	<u>—</u>	
Total direct costs	411,778	411,778	—	
Indirect costs	<u>161,372</u>	<u>64,073</u>	<u>(97,299)</u>	Finding 2
Subtotals, health expenditures	573,150	475,851	(97,299)	
Less costs subject to fee authority	<u>(246,639)</u>	<u>(244,322)</u>	<u>2,317</u>	Finding 3
Subtotals	326,511	231,529	(94,982)	
Less offsetting savings/reimbursements	<u>(551)</u>	<u>(3,588)</u>	<u>(3,037)</u>	Finding 4
Total costs	<u>\$ 325,960</u>	227,941	<u>\$ (98,019)</u>	
Less amount paid by the State		<u>(63,493)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 164,448</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 363,444	\$ 363,444	\$ —	
Services and supplies	64,736	36,853	(27,883)	Finding 1
Capital outlay	<u>5,165</u>	<u>5,165</u>	<u>—</u>	
Total direct costs	433,345	405,462	(27,883)	
Indirect costs	<u>171,509</u>	<u>163,550</u>	<u>(7,959)</u>	Finding 2
Subtotals, health expenditures	604,854	569,012	(35,842)	
Less costs subject to fee authority	<u>(310,929)</u>	<u>(308,115)</u>	<u>2,814</u>	Finding 3
Subtotals	293,925	260,897	(33,028)	
Less offsetting savings/reimbursements	<u>(4,136)</u>	<u>(4,136)</u>	<u>—</u>	Finding 4
Total costs	<u>\$ 289,789</u>	256,761	<u>\$ (33,028)</u>	
Less amount paid by the State		<u>(70,064)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 186,697</u>		
<u>Summary: July 1, 2000, through June 30, 2002</u>				
Salaries and benefits	\$ 687,551	\$ 687,551	\$ —	
Services and supplies	97,611	69,728	(27,883)	Finding 1
Capital outlay	<u>59,961</u>	<u>59,961</u>	<u>—</u>	
Total direct costs	845,123	817,240	(27,883)	
Indirect costs	<u>332,881</u>	<u>227,623</u>	<u>(105,258)</u>	Finding 2
Subtotals, health expenditures	1,178,004	1,044,863	(133,141)	
Less costs subject to fee authority	<u>(557,568)</u>	<u>(552,437)</u>	<u>5,131</u>	Finding 3
Subtotals	620,436	492,426	(128,010)	
Less offsetting savings/reimbursements	<u>(4,687)</u>	<u>(7,724)</u>	<u>(3,037)</u>	Finding 4
Total costs	<u>\$ 615,749</u>	484,702	<u>\$ (131,047)</u>	
Less amount paid by the State		<u>(133,557)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 351,145</u>		

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

# Findings and Recommendations

## **FINDING 1— Unallowable student insurance**

The district claimed unallowable athlete insurance costs totaling \$27,883 for FY 2001-02. District staff members believed that these costs were eligible for reimbursement.

*Parameters and Guidelines* states that the cost of insurance is reimbursable for the following activities: (1) on campus accident, (2) voluntary, and (3) insurance inquiry/claim administration.

*Education Code* Section 76355(d) (formerly Section 72246(2)) states that athletic insurance is not an authorized expenditure for health services.

### Recommendation

The district should ensure that all costs claimed are within the scope of *Parameters and Guidelines* for the program.

### District's Response

The district agrees with this finding.

## **FINDING 2— Unallowable indirect costs**

The district overstated indirect costs claimed by \$105,258 for the audit period.

The district claimed indirect costs by applying the indirect cost rate it calculated of 49.79% for FY 2000-01 and 47.19% for FY 2001-02 to salaries and benefits.

The district did not receive federal approval to apply its indirect cost rate proposal (ICRP) to FY 2000-01. Therefore, the SCO auditor calculated indirect costs using the methodology described in the SCO claiming instructions using Form FAM-29C. Consistent with this methodology, the SCO auditor calculated the indirect cost rate of 15.56% and applied that rate to total direct costs, resulting in overstated claimed costs of \$97,299.

The district also did not receive federal approval to apply its ICRP to FY 2001-02. However, the district did receive federal approval to calculate indirect costs by applying 45% for salaries and wages to FY 2002-03 and FY 2003-04. The indirect cost rate was based on FY 2001-02 actual expenditures. Consistent with the SCO claiming instructions, the auditor calculated FY 2001-02 indirect costs using the 45% indirect cost rate, resulting in overstated claimed costs of \$7,959.

*Parameters and Guidelines* states that indirect costs may be claimed in the manner described in the SCO claiming instructions, which state that community college districts using an ICRP prepared in accordance with Office of Management and Budget (OMB) Circular A-21 must obtain federal approval of the ICRP. If the federal rate is used, it must be from the same fiscal year in which the costs were incurred. Alternately, the



SCO claiming instructions allow community college districts to compute an indirect cost rate using Form FAM-29C, which is based on total expenditures as reported in *California Community Colleges Annual Financial and Budget Report, Expenditures by Activity* (CCFS-311).

Based on the allowable indirect cost rate methodology, the audit adjustments are as follows:

	Fiscal Year		Total
	2000-01	2001-02	
Allowable direct costs claimed	\$ 411,778	\$ —	
Allowable salaries and wages	—	363,444	
Allowable indirect cost rate	× 15.56%	× 45.00%	
Allowable indirect costs	64,073	163,550	\$ 227,623
Less indirect costs claimed	<u>(161,372)</u>	<u>(171,509)</u>	<u>(332,881)</u>
Audit adjustment	<u>\$ (97,299)</u>	<u>\$ (7,959)</u>	<u>\$ (105,258)</u>

**Recommendation**

The district should claim indirect costs based on indirect cost rates computed in accordance with the SCO claiming instructions.

**District’s Response**

The parameters and guidelines from the State Controller’s *Mandated Cost Manual for Schools* states the following on Indirect Cost Rates for Community Colleges:

“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 State Controllers methodology outlined in the following paragraphs. **If the federal rate is used, it must be from the same fiscal year in which the cost were incurred.**”

The audit disallowed \$111,460 of indirect costs for fiscal year 2001-02 because we did not use the State Controllers methodology for computing indirect costs. However, the college did apply and did receive a federally approved rate **based on fiscal year 2001-02 expenses**. Attached is the agreement which we received from the Department of Health and Human Services approving a 45.0% indirect cost rate. On our claim, we claimed a 47.19% rate. As a result, only 2.19% (47.19%-45.0%) or \$7,959 should be disallowed for fiscal year 2001-02’s indirect cost. This will reduce our disallowed costs for the two-year period by \$103,501.

**SCO’s Comment**

The SCO agrees with the district’s position and has updated the finding for FY 2001-02. The updated finding applies a federally approved indirect cost rate of 45% to allowable salaries and benefits rather than applying the SCO FAM-29C rate of 14.81% to total direct costs. As a result, the unallowable costs for FY 2001-02 were reduced by \$103,501, from \$111,460 to \$7,959.

**FINDING 3—  
Overstated authorized  
health fee revenues  
claimed**

The district overstated authorized health fee revenues by \$5,131 for the audit period.

*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 from 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.

Based on the Student Characteristics and Bogg-Health Fee Waiver Reports, the district overstated authorized health fee revenues as follows:

	<u>Summer</u>	<u>Fall</u>	<u>Winter</u>	<u>Spring</u>	<u>Total</u>
<u>FY 2000-01</u>					
Number of students net of allowable health fee exemptions:					
Per claim	4,759	9,188	—	9,340	
Per audit	<u>(4,625)</u>	<u>(9,151)</u>	<u>—</u>	<u>(9,276)</u>	
Total variance	134	37	—	64	
Authorized student health fee	<u>× \$ 9</u>	<u>× \$11</u>	<u>—</u>	<u>× \$11</u>	
Audit adjustment, FY 2000-01	<u>\$ 1,206</u>	<u>\$ 407</u>	<u>—</u>	<u>\$ 704</u>	\$ 2,317
<u>FY 2001-02</u>					
Number of students net of allowable health fee exemptions:					
Per claim	6,153	9,825	2,604	9,518	
Per audit	<u>(6,099)</u>	<u>(9,771)</u>	<u>(2,520)</u>	<u>(9,441)</u>	
Total variance	54	54	84	77	
Authorized student health fee	<u>× \$ 9</u>	<u>× \$12</u>	<u>× \$ 9</u>	<u>× \$12</u>	
Audit adjustment, FY 2001-02	<u>\$ 486</u>	<u>\$ 648</u>	<u>\$ 756</u>	<u>\$ 924</u>	<u>2,814</u>
Total audit adjustment					<u>\$ 5,131</u>

**Recommendation**

The district should ensure that health fee revenues are properly reported.

**Districts' Response**

The district agrees with this finding.

**FINDING 4—  
Revenue offsets  
understated**

The district understated amounts funded by college work study and foundation contributions by \$3,037 for FY 2000-01, thus understating revenue offsets by the same amount.

*Parameters and Guidelines* specifies that any offsetting savings or reimbursements received by the district from any source as a result of the mandate must be identified and deducted so that only net district health services costs are claimed.

The SCO auditor used the district's appropriation ledger detail and

annual financial report to identify the reimbursements from state work study and foundation contributions for FY 2000-01. The understated revenue offsets are as follows:

	<u>FY 2000-01</u>
Offsetting revenues claimed	\$ 551
Less offsetting revenues per audit	<u>(3,588)</u>
Audit adjustment	<u>\$ (3,037)</u>

**Recommendation**

The district should ensure that filed claims are reduced by program-related revenue offsets.

**District's Response**

The district agrees with this finding.

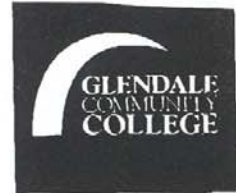
**Attachment—  
District’s Response to  
Draft Audit Report**

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June 14, 2004

Mr. Jim L. Spano  
Chief Compliance Audits Bureau  
State Chancellor's Office  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250-5874



Dr. John A. Davitt  
Superintendent/President

BOARD OF TRUSTEES  
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RE: Health Fee Elimination Program Mandated Cost Audit  
Fiscal Years 2000-01 and 2001-02 Claims

Dear Mr. Spano:

We have received a draft copy of the Health Fee Elimination Program Mandated Cost audit report for the 2000-01 and 2001-02 fiscal years. We are in agreement with the report except for Finding number 2, Unallowable indirect costs.

The parameters and guidelines from the State Controller's *Mandated Cost Manual for Schools* states the following on Indirect Cost Rates for Community Colleges:

"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 State Controllers methodology outlined in the following paragraphs. **If the federal rate is used, it must be from the same fiscal year in which the cost were incurred.**"

The audit disallowed \$111,460 of indirect costs for fiscal year 2001-02 because we did not use the State Controllers methodology for computing indirect costs. However, the college did apply and did receive a federally approved rate **based on fiscal year 2001-02 expenses**. Attached is the agreement which we received from the Department of Health and Human Services approving a 45.0% indirect cost rate. On our claim, we claimed a 47.19% rate. As a result, only 2.19% (47.19%-45.0%) or \$7,959 should be disallowed for fiscal year 2001-02's indirect cost. This will reduce our disallowed costs for the two year period by \$103,501.

Please call me at (818) 240-1000 extension 5210 if you have any questions or need additional information. Thank you for your consideration in this matter.

Sincerely,

Ron Nakasone  
Controller

Enclosure



Dr. John Davitt  
Mary Mirch

1500 North Verdugo Road • Glendale, CA 91208-2894 • 818-240-1000 • fax: 818-549-9436 • www.glendale.edu

COLLEGES AND UNIVERSITIES RATE AGREEMENT

EIN #:

DATE: March 28, 2003

INSTITUTION:

Glendale Community College  
1500 North Verdugo Road

FILING REF.: The preceding Agreement was dated NONE

Glendale

CA

91208-2894

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: FACILITIES AND ADMINISTRATIVE COST RATES\*

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

TYPE	EFFECTIVE PERIOD		RATE (%)	LOCATIONS	APPLICABLE TO
	FROM	TO			
PROV.	07/01/02	06/30/04	45.0	On-Campus	All Programs

\*BASE:

Direct salaries and wages including vacation, holiday, sick pay and other paid absences but excluding all other fringe benefits.

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

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