

RIO HONDO 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

June 2005



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California State Controller

June 30, 2005

Rose Marie Joyce, Ph.D
Superintendent/President
Rio Hondo Community College District
3600 Workman Mill Road
Whittier, CA 90601

Dear Dr. Joyce:

The State Controller's Office audited the claims filed by the Rio Hondo Community College District for costs of 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 \$565,649 (\$566,649 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that none of the claimed costs are allowable because the district claimed unallowable costs and understated claimed revenues. The State made no payments to the district.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at COSM's Web site at www.csm.ca.gov (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

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

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/ams

cc: Teresa Dreyfuss, Vice President
Rio Hondo Community College District
Ed Monroe, Program Assistant
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

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Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by the Rio Hondo Community College District for costs of 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 last day of fieldwork was December 1, 2004.

The district claimed \$565,649 (\$566,649 less a \$1,000 penalty for filing a late claim) for the mandated program. The audit disclosed that none of the claimed costs are allowable because the district claimed unallowable costs and understated claimed revenue offsets. The State made no payments to the district.

Background

Education Code Section 72246 (repealed by Chapter 1, Statutes of 1984, 2nd Extraordinary Session (E.S.)) authorizes 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, reinstating the community college districts' authority to charge a health service fee as specified.

Education Code Section 72246 (amended by Chapter 1118, Statutes of 1987) requires any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 1, Statutes of 1984, 2nd E.S., imposed a "new program" upon community college districts by requiring 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 applies to all community college districts that levied a health service fee in FY 1983-84, regardless of the extent to which the health service 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, 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, not funded by another source, and 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 Rio Hondo Community College District claimed \$565,649 (\$566,649 less a \$1,000 penalty for filing a late claim) for Health Fee Elimination Program costs. Our audit disclosed that none of the claimed costs are allowable.

Views of Responsible Official

We issued a draft audit report on April 22, 2005. On June 1, 2005, we sent Teresa Dreyfuss, Vice President, an e-mail requesting a written response to the draft report, and we also left her a telephone message asking her to return our call. Ms. Dreyfuss did not respond.

Restricted Use

This report is solely for the information and use of the Rio Hondo Community College District, 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 Adjustments | Reference ¹ |
|--|-------------------------|------------------------|----------------------|------------------------|
| <u>July 1, 2000, through June 30, 2001</u> | | | | |
| Salaries and benefits | \$ 311,072 | \$ 275,765 | \$ (35,307) | Finding 1 |
| Services and supplies | 3,815 | 3,815 | — | |
| Indirect costs | 68,469 | 33,087 | (35,382) | Findings 1, 4 |
| Total health services costs | 383,356 | 312,667 | (70,689) | |
| Less cost of services in excess of FY 1986-87 services | (15,066) | (15,066) | — | Finding 5 |
| Subtotal | 368,290 | 297,601 | (70,689) | |
| Less authorized health fees | (209,832) | (493,992) | (284,160) | |
| Subtotal | 158,458 | (196,391) | (354,849) | |
| Less offsetting savings/reimbursements | — | — | — | |
| Subtotal | 158,458 | (196,391) | (354,849) | |
| Less late claim | (1,000) | (1,000) | — | |
| Subtotal | 157,458 | (197,391) | (354,849) | |
| Adjustment to eliminate negative balance | — | 197,391 | 197,391 | |
| Total program costs | <u>\$ 157,458</u> | — | <u>\$ (157,458)</u> | |
| Less amount paid by the State | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ —</u> | | |
| <u>July 1, 2001, through June 30, 2002</u> | | | | |
| Salaries and benefits | \$ 320,199 | \$ 273,694 | \$ (46,505) | Findings 1, 2 |
| Services and supplies | 44,624 | 44,624 | — | |
| Indirect costs | 41,705 | 36,325 | (5,380) | Findings 1, 2, 4 |
| Total health services costs | 406,528 | 354,643 | (51,885) | |
| Less cost of services in excess of FY 1986-87 services | — | — | — | Finding 5 |
| Subtotal | 406,528 | 354,643 | (51,885) | |
| Less authorized health fees | (186,999) | (492,888) | (305,889) | |
| Subtotal | 219,529 | (138,245) | (357,774) | |
| Less offsetting savings/reimbursements | (18,744) | (18,744) | — | |
| Subtotal | 200,785 | (156,989) | (357,774) | |
| Less late claim | — | — | — | |
| Subtotal | 200,785 | (156,989) | (357,774) | |
| Adjustment to eliminate negative balance | — | 156,989 | 156,989 | |
| Total program costs | <u>\$ 200,785</u> | — | <u>\$ (200,785)</u> | |
| Less amount paid by the State | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ —</u> | | |

Schedule 1 (continued)

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustments | Reference ¹ |
|--|-------------------------|------------------------|----------------------|------------------------|
| <u>July 1, 2002, through June 30, 2003</u> | | | | |
| Salaries and benefits | \$ 365,457 | \$ 303,198 | \$ (62,259) | Findings 1, 2 |
| Services and supplies | 87,137 | 57,301 | (29,836) | Findings 1, 3 |
| Indirect costs | 31,682 | 54,184 | 22,502 | Findings 1-4 |
| Total health services costs | 484,276 | 414,683 | (69,593) | |
| Less cost of services in excess of FY 1986-87 services | — | — | — | Finding 5 |
| Subtotal | 484,276 | 414,683 | (69,593) | |
| Less authorized health fees | (276,870) | (566,583) | (289,713) | |
| Subtotal | 207,406 | (151,900) | (359,306) | |
| Less offsetting savings/reimbursements | — | — | — | |
| Subtotal | 207,406 | (151,900) | (359,306) | |
| Less late claim | — | — | — | |
| Subtotal | 207,406 | (151,900) | (359,306) | |
| Adjustment to eliminate negative balance | — | 151,900 | 151,900 | |
| Total program costs | <u>\$ 207,406</u> | — | <u>\$ (207,406)</u> | |
| Less amount paid by the State | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ —</u> | | |
| <u>Summary: July 1, 2000, through June 30, 2003</u> | | | | |
| Salaries and benefits | \$ 996,728 | \$ 852,657 | \$ (144,071) | Findings 1, 2 |
| Services and supplies | 135,576 | 105,740 | (29,836) | Findings 1, 3 |
| Indirect costs | 141,856 | 123,596 | (18,260) | Findings 1-4 |
| Total health services costs | 1,274,160 | 1,081,993 | (192,167) | |
| Less cost of services in excess of FY 1986-87 services | (15,066) | (15,066) | — | Finding 5 |
| Subtotal | 1,259,094 | 1,066,927 | (192,167) | |
| Less authorized health fees | (673,701) | (1,553,463) | (879,762) | |
| Subtotal | 585,393 | (486,536) | (1,071,929) | |
| Less offsetting savings/reimbursements | (18,744) | (18,744) | — | |
| Subtotal | 566,649 | (505,280) | (1,071,929) | |
| Less late claim | (1,000) | (1,000) | — | |
| Subtotal | 565,649 | (506,280) | (1,071,929) | |
| Adjustment to eliminate negative balance | — | 506,280 | 506,280 | |
| Total program costs | <u>\$ 565,649</u> | — | <u>\$ (565,649)</u> | |
| Less amount paid by the State | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ —</u> | | |

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Unallowable health costs**

The district claimed unallowable health services costs totaling \$137,959 for the audit period. The related indirect cost is \$16,749.

The unallowable costs pertain to the following health services not provided by Rio Hondo College in fiscal year (FY) 1986-87: blood pressure, flu shots, and Hepatitis B shots. In addition, the district claimed unallowable costs for physical examinations of athletes.

A summary of the adjustment is as follows.

| | Fiscal Year | | | Total |
|---------------------------|--------------------|--------------------|--------------------|---------------------|
| | 2000-01 | 2001-02 | 2002-03 | |
| Unallowable health costs: | | | | |
| Salaries and benefits | \$ (35,307) | \$ (42,605) | \$ (58,225) | \$ (136,137) |
| Supplies | — | — | (1,822) | (1,822) |
| Subtotal | (35,307) | (42,605) | (60,047) | (137,959) |
| Related indirect cost | (7,676) | (4,870) | (4,203) | (16,749) |
| Audit adjustment | <u>\$ (42,983)</u> | <u>\$ (47,475)</u> | <u>\$ (64,250)</u> | <u>\$ (154,708)</u> |

Parameters and Guidelines specifies that community college districts be reimbursed only for the costs of health services provided to the extent that they were provided by the district in FY 1986-87.

Education Code Section 76355(d) states that authorized expenditures shall not include physical exams for intercollegiate athletes.

Recommendation

We recommend the district ensure that it claims only costs for health services reimbursable under the mandate program.

**FINDING 2—
Unallowable salary and benefit costs**

The district claimed unallowable salary and benefit costs totaling \$7,934 for the audit period. The related indirect cost is \$728.

The unallowable costs relate to student workers’ salaries and benefits funded by the federal work study program.

A summary of the adjustment is as follows.

| | Fiscal Year | | Total |
|-----------------------|-------------------|-------------------|-------------------|
| | 2001-02 | 2002-03 | |
| Salaries and benefits | \$ (3,900) | \$ (4,034) | \$ (7,934) |
| Related indirect cost | (446) | (282) | (728) |
| Audit adjustment | <u>\$ (4,346)</u> | <u>\$ (4,316)</u> | <u>\$ (8,662)</u> |

Parameters and Guidelines requires that all claimed costs be traceable to source documents and/or worksheets that validate such costs.

Recommendation

We recommend the district ensure that all claimed costs are allowable and supported.

**FINDING 3—
Unallowable athletic
insurance costs**

In FY 2002-03, the district claimed unallowable athletic insurance costs totaling \$28,014. The error occurred because the district’s staff believed these costs were eligible for reimbursement. The related indirect cost is \$1,961.

Education Code Section 76355(d) (formerly Section 72246(2)) states that authorized expenditures for health services shall not include the cost of athletic insurance.

Recommendation

We recommend the district ensure that all claimed costs are allowable and supported.

**FINDING 4—
Understated indirect
cost rate claimed**

The district understated indirect costs by \$1,178 for the audit period.

The district claimed indirect costs based on indirect cost rate proposals (ICRPs) prepared each fiscal year by an outside consultant. However, the district did not obtain federal approval for its rates.

We calculated indirect cost rates using the methodology allowed by the SCO claiming instructions. A summary of the audited and claimed indirect cost rates is as follows.

| | Fiscal Year | | |
|----------------------------------|-------------|----------|---------|
| | 2000-01 | 2001-02 | 2002-03 |
| Allowable indirect cost rates | 11.83% | 11.41% | 15.03% |
| Less claimed indirect cost rates | (21.74)% | (11.43)% | (7.00)% |
| Indirect cost rate variance | (9.91)% | (0.02)% | 8.03% |

Based on the indirect cost rate variances, the audit adjustment is summarized as follows.

| | Fiscal Year | | | Total |
|-------------------------------|-------------|------------|------------|----------|
| | 2000-01 | 2001-02 | 2002-03 | |
| Allowable direct cost claimed | \$ 279,580 | \$ 318,318 | \$ 360,499 | |
| Indirect cost rate variance | × (9.91)% | × (0.02)% | × 8.03% | |
| Audit adjustment | \$ (27,706) | \$ (64) | \$ 28,948 | \$ 1,178 |

Parameters and Guidelines allows community college districts to claim indirect costs according to the SCO claiming instructions. The SCO claiming instructions require that districts obtain federal approval of ICRPs prepared according to Office of Management and Budget (OMB) Circular A-21. Alternatively, districts may use form FAM-29C to compute indirect cost rates. Form FAM-29C uses total expenditures reported on the *California Community Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311)*.

Recommendation

We recommend the district use the SCO claiming instructions to calculate indirect cost rates. The district should obtain federal approval when it prepares ICRPs using OMB Circular A-21. Alternatively, the district should use Form FAM-29C to prepare ICRPs.

**FINDING 5—
Understated authorized
health fee revenues
claimed**

The district understated authorized health fee revenue by \$879,762 for the audit period.

The total number of students claimed for each semester in the audit period did not reconcile to the actual student count data. The auditor found that the number of health fee exemptions claimed included academy and high school students. Consequently, the auditor used: the district’s summary report R10709R printouts (actual student count by unit load) and detail printouts of students by name and student number for each semester to identify the student count; the district’s Computing Services Report BOGGCTQ1 printouts to identify Board of Governors Grants (BOGG) waivers; and apprenticeship program listings of student to identify apprenticeship waivers. The district was unable to explain the differences between the students counts claimed and the totals identified in the R10709R and the detail student printouts. In addition, the district believed that academy and high school students qualified for health fee exemptions.

A summary of our adjustment to authorized health fee revenues is as follows.

| | Semester | | | Total |
|--|---------------------|---------------------|---------------------|---------------------|
| | Fall | Spring | Summer | |
| <u>Fiscal Year 2000-01</u> | | | | |
| Student enrollment | 25,928 | 23,330 | 14,478 | |
| Less allowable health fee exemptions | <u>(6,040)</u> | <u>(6,770)</u> | <u>(2,845)</u> | |
| Subtotal | 19,888 | 16,560 | 11,633 | |
| Authorized student health fee | × \$ (11) | × \$ (11) | × \$ (8) | |
| Audited authorized health service fees | <u>\$ (218,768)</u> | <u>\$ (182,160)</u> | <u>\$ (93,064)</u> | \$ (493,992) |
| Claimed authorized health fee revenues | | | | <u>209,832</u> |
| Audit adjustment, FY 2000-01 | | | | <u>(284,160)</u> |
| <u>Fiscal Year 2001-02</u> | | | | |
| Student enrollment | 23,834 | 24,582 | 13,104 | |
| Less allowable health fee exemptions | <u>(7,021)</u> | <u>(7,800)</u> | <u>(3,132)</u> | |
| Subtotal | 16,813 | 16,782 | 9,972 | |
| Authorized student health fee | × \$ (12) | × \$ (12) | × \$ (9) | |
| Audited authorized health service fees | <u>\$ (201,756)</u> | <u>\$ (201,384)</u> | <u>\$ (89,748)</u> | (492,888) |
| Claimed authorized health fee revenues | | | | <u>186,999</u> |
| Audit adjustment, FY 2001-02 | | | | <u>(305,889)</u> |
| <u>Fiscal Year 2002-03</u> | | | | |
| Student enrollment | 27,137 | 25,383 | 17,512 | |
| Less allowable health fee exemptions | <u>(7,440)</u> | <u>(8,256)</u> | <u>(3,657)</u> | |
| Subtotal | 19,697 | 17,127 | 13,855 | |
| Authorized student health fee | × \$ (12) | × \$ (12) | × \$ (9) | |
| Audited authorized health service fees | <u>\$ (236,364)</u> | <u>\$ (205,524)</u> | <u>\$ (124,695)</u> | \$ (566,583) |
| Claimed authorized health fee revenues | | | | <u>276,870</u> |
| Audit adjustment, FY 2002-03 | | | | <u>(289,713)</u> |
| Total audit adjustment | | | | <u>\$ (879,762)</u> |

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 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. (Pursuant to *Education Code* Section 76355(a), authorized health fees increased by \$1 effective with the summer 2001 session.)

Also, *Government Code* Section 17514 states that “costs mandated by the State” means any increased cost that a district is required to incur. To the extent that community college districts can charge a fee, they are not required to incur a cost. In addition, *Government Code* Section 17556 states that COSM shall not find costs to be mandated by the State if the district has the authority to levy fees to pay for the mandated program or increased level of services.

Recommendation

We recommend the district ensure that allowable health services program costs are offset by the amount of health service fee revenue authorized by the *Education Code*.

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

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