

VENTURA COUNTY COMMUNITY COLLEGE DISTRICT

Revised Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd Extraordinary Session,
and Chapter 1118, Statutes of 1987

July 1, 2002, through June 30, 2006



JOHN CHIANG
California State Controller

October 2010



JOHN CHIANG
California State Controller

October 15, 2010

Robert O. Huber, Chairman
Board of Trustees
Ventura County Community College District
255 W. Stanley Avenue, Suite 150
Ventura, CA 93001

Dear Mr. Huber:

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

The district claimed \$3,263,050 (\$3,265,050 less a \$2,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$2,591,124 is allowable and \$671,926 is unallowable. The unallowable costs resulted because the district claimed non-health center costs, overstated indirect costs, overstated the student health fees, and did not offset miscellaneous revenues against the health center costs. The unallowable costs include an adjustment for the amount of allowable costs that exceed claimed costs for fiscal year (FY) 2004-05 and FY 2005-06. The State paid the district \$984,733. Allowable costs claimed exceed the amount paid by \$1,606,391.

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: James Meznick, Ph.D., Chancellor
Ventura County Community College District
Sue Johnson, Vice Chancellor
Ventura County Community College District
Mary Anne McNeil, Director of Fiscal Services
Ventura County Community College District
Deborah LaTeer, Budget Officer
Ventura County 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

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Revised Audit Report

Summary

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

The district claimed \$3,263,050 (\$3,265,050 less a \$2,000 penalty for filing late claims) for the mandated program. Our audit disclosed that \$2,591,124 is allowable and \$671,926 is unallowable. The costs are unallowable because the district understated direct costs, misstated indirect costs, overstated student health fees and understated offsetting revenues/reimbursements. The State paid the district \$984,733. Allowable costs claimed exceed the amount paid by \$1,606,391.

Background

Chapter 1, Statutes 1984, 2nd Extraordinary Session (E.S.) repealed Education Code section 72246 which authorized community college districts to charge a health fee for providing health supervision and services, providing medical and hospitalization services, and operating student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The 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, 2nd Extraordinary Session imposed a "new program" upon community college districts by requiring specified community college districts that provided health services in FY 1983-84 to maintain health services at the level provided during that year 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 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 for mandated programs to assist local 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, 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, Ventura County Community College District claimed \$3,263,050 (\$3,265,050 less a \$2,000 penalty for filing late claims) for costs of the Health Fee Elimination Program. Our audit disclosed that \$2,591,124 is allowable and \$671,926 is unallowable.

For the FY 2002-03 claim, the State paid the district \$984,733. Our audit disclosed that \$809,454 is allowable. The State will offset \$175,279 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 \$644,085 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$644,085, contingent upon available appropriations.

For the FY 2004-05 claim, the State made no payment to the district. Our audit disclosed that \$613,671 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$613,671, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on July 16, 2008. Sue Johnson, Vice Chancellor, responded by letter dated July 28, 2008 (Attachment), agreeing with the audit results. This final audit report includes the district's response.

We issued a final audit report on September 12, 2008. Subsequently, we revised Finding 3 to recalculate allowable indirect cost rates for FY 2004-05 and FY 2005-06. However, we made no changes to the audit findings because allowable costs exceeded claimed costs in both of the revision FY 2004-05 and FY 2005-06. We advised Sue Johnson, Vice Chancellor, on August 24, 2010. Mary Anne McNeil, Director of Fiscal Services, responded by e-mail on September 13, 2010, requesting that we reissue the report in order to provide the district with a list of the changes to the indirect cost calculations and the reasons for the changes.

Restricted Use

This report is solely for the information and use of Ventura County 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

October 15, 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 ¹
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 1,186,454	\$ 1,081,344	\$ (105,110)	Finding 1
Services and supplies	351,971	314,843	(37,128)	Finding 2
Indirect costs	617,549	322,659	(294,890)	Finding 3
Total health services costs	2,155,974	1,718,846	(437,128)	
Less authorized health fees	(781,602)	(789,195)	(7,593)	Finding 4
Subtotal	1,374,372	929,651	(444,721)	
Less offsetting savings/reimbursements	—	(119,197)	(119,197)	Finding 5
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 1,373,372</u>	809,454	<u>\$ (563,918)</u>	
Less amount paid by the State		(984,733)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (175,279)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 905,951	\$ 905,951	\$ —	
Services and supplies	266,854	266,854	—	
Indirect costs	412,570	258,017	(154,553)	Finding 3
Total health services costs	1,585,375	1,430,822	(154,553)	
Less authorized health fees	(703,539)	(656,994)	46,545	Finding 4
Subtotal	881,836	773,828	(108,008)	
Less offsetting savings/reimbursements	(128,743)	(128,743)	—	
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 752,093</u>	644,085	<u>\$ (108,008)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 644,085</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries and benefits	\$ 867,752	\$ 867,752	\$ —	
Services and supplies	217,238	217,238	—	
Indirect costs	393,525	455,262	61,737	Finding 3
Total health services costs	1,478,515	1,540,252	61,737	
Less authorized health fees	(744,890)	(680,455)	64,435	Finding 4
Subtotal	733,625	859,797	126,172	
Less offsetting savings/reimbursements	(119,954)	(119,954)	—	
Less allowable costs that exceed costs claimed ²	—	(126,172)	(126,172)	
Total program costs	<u>\$ 613,671</u>	613,671	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 613,671</u>		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits	\$ 925,146	\$ 925,146	\$ —	
Services and supplies	218,957	218,957	—	
Indirect costs	<u>393,372</u>	<u>472,743</u>	79,371	Finding 3
Total health services costs	1,537,475	1,616,846	79,371	
Less authorized health fees	<u>(914,862)</u>	<u>(869,547)</u>	45,315	Finding 4
Subtotal	622,613	747,299	124,686	
Less offsetting savings/reimbursements	(98,699)	(98,699)	—	
Less allowable costs that exceed costs claimed ²	<u>—</u>	<u>(124,686)</u>	<u>(124,686)</u>	
Total program costs	<u>\$ 523,914</u>	523,914	<u>\$ —</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 523,914</u>		
<u>Summary: July 1, 2002, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits	\$ 3,885,303	\$ 3,780,193	\$ (105,110)	
Services and supplies	1,055,020	1,017,892	(37,128)	
Indirect costs	<u>1,817,016</u>	<u>1,508,681</u>	(308,335)	
Total health services costs	6,757,339	6,306,766	(450,573)	
Less authorized health fees	<u>(3,144,893)</u>	<u>(2,996,191)</u>	148,702	
Subtotal	3,612,446	3,310,575	(301,871)	
Less offsetting savings/reimbursements	(347,396)	(466,593)	(119,197)	
Less late filing penalty	(2,000)	(2,000)	—	
Less allowable costs that exceed costs claimed ²	<u>—</u>	<u>(250,858)</u>	<u>(250,858)</u>	
Total program costs	<u>\$ 3,263,050</u>	2,591,124	<u>\$ (671,926)</u>	
Less amount paid by the State		<u>(984,733)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,606,391</u>		

¹ See the Findings and Recommendations section.

² Government Code section 17561 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. The deadline has expired for the FY 2004-05 and FY 2005-06 claims.

Revised Findings and Recommendations

**FINDING 1—
Unallowable salaries
and benefits**

The district claimed unallowable salaries and benefits totaling \$105,110 for fiscal year (FY) 2002-03. The district inadvertently included costs unrelated to the mandated program from Contract Education Contracts Fund 127 and Other General Fund Restricted Fund 129.

The program’s parameters and guidelines, Section VII–Supporting Data, state that all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

Recommendation

We recommend that the district claim only salaries and benefits for activities reimbursable under the mandated program.

District’s Response

The district agreed with the audit finding.

**FINDING 2—
Unallowable services
and supplies**

The district claimed unallowable services and supplies costs totaling \$37,128 for FY 2002-03. The district inadvertently included costs unrelated to the mandated program from Contract Education Contracts Fund 127.

The parameters and guidelines, Section VII–Supporting Data, state that all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

Recommendation

We recommend that the district claim only services and supplies for activities reimbursable under the mandated program.

District’s Response

The district agreed with the audit finding.

**FINDING 3—
Overstated indirect
costs**

The district overclaimed indirect costs for FY 2002-03 and FY 2003-04, and underclaimed indirect costs for FY 2004-05 and FY 2005-06, resulting in a net overstatement of indirect costs totaling \$308,335 for the audit period.

The district claimed indirect costs based on indirect cost rate proposals (ICRPs) prepared for each fiscal year by an outside consultant. Our audit found that the ICRPs reported for each fiscal year were neither approved by the federal government nor prepared in accordance with FAM-29C methodology. Although it did have a federally approved indirect cost rate of 30% for both FY 2004-05 and FY 2005-06, the district reported the rates were prepared by the outside consultant instead. For FY 2002-03 and FY 2003-04, we calculated indirect cost rates using the FAM-29C

methodology described in the SCO claiming instructions. For FY 2004-05 and FY 2005-06, the FAM-29C methodology produced an indirect cost rate greater than the federally approved indirect costs rate of 30%. Our calculated indirect cost rates did not support the indirect cost rates claimed.

The following table summarizes the difference between the allowable and claimed indirect cost rates, using FAM-29C methodology:

	Fiscal Year			
	2002-03	2003-04	2004-05	2005-06
Allowable indirect cost rate	23.11%	22.00%	41.96%	41.32%
Claimed indirect cost rate	(52.05)%	(45.54)%	(45.35)%	(42.52)%
Difference	(28.94)%	(23.54)%	(3.35)%	(1.20)%

As the indirect cost rates per the consultant are based on direct salaries and wages and the indirect cost rates allowed are based on total costs, the percentages above are presented for disclosure only and not to measure quantitative differences.

The following table summarizes the adjustments to indirect costs:

	Fiscal Year				Total
	2002-03	2003-04	2004-05	2005-06	
Allowable costs	\$1,396,187	\$1,172,805	\$1,084,990	\$1,144,103	
Allowable indirect cost rate	× 23.11%	× 22.00%	× 41.96%	× 41.32%	
Allowable indirect costs	322,659	258,017	455,262	472,743	\$1,508,681
Claimed indirect costs	(617,549)	(412,570)	(393,525)	(393,372)	(1,817,016)
Difference	\$ (294,890)	\$ (154,553)	\$ 61,737	\$ 79,371	\$ (308,335)

The parameters and guidelines state that indirect costs may be claimed in the manner described by the SCO in its claiming instructions. The SCO's claiming instructions 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.

The SCO's Mandated Cost Manual states that indirect costs must be distributed to benefiting cost objectives on bases that produce an equitable result in relation to the benefits derived by the mandate.

Recommendation

We recommend that the district apply the federally approved rate or claim indirect costs based on the FAM-29C methodology.

District's Response

The district agreed with the audit finding.

SCO's Comment

Subsequent to the issuance of the final audit report on September 12, 2008, we revised allowable indirect cost rates for FY 2004-05 and FY 2005-06. Our original calculations included physical property (EDP #7100) as a direct cost and excluded allowable depreciation expense incurred by the district for capitol assets as an indirect cost on Form FAM-29C. We obtained the depreciation amounts for each year from Note 4 of the district's Basic Financial Statements (\$4,299,988 for FY 2004-05 and \$4,829,422 for FY 2005/06). This increased the indirect cost rates for those two years to 41.96% and 41.32%, respectively. As a result, we revised the overstated indirect costs by \$110,482, from \$418,817 to \$308,335.

Our recommendation is unchanged.

**FINDING 4—
Overstated authorized
health services fees**

The district overstated authorized health services fees by \$148,702 for the audit period.

The district claimed student and BOGG (Board of Governors Grant) waiver counts that did not agree with the information it provided to the California Community College Chancellor's Office. With the exception of the 2002 summer term, the district overstated student counts and understated BOGG waiver counts. The student counts were overstated because the district duplicated students who attended two or more colleges within the district. We were unable to determine the reason for the understated BOGG waiver counts.

In addition, for FY 2002-03 through FY 2004-05, the district claimed the summer term in the wrong fiscal year. The district claimed the 2003 summer term in FY 2002-03 rather than in FY 2003-04. The district also incorrectly claimed the 2004 summer term in FY 2003-04 and the 2005 summer term in FY 2004-05.

The following table shows the understated authorized health fee revenues resulting from the variances in student counts:

	<u>Semester</u>			<u>Total</u>
	<u>Summer</u>	<u>Fall</u>	<u>Spring</u>	
<u>Fiscal Year 2002-03</u>				
Student enrollment:				
Per claim	11,682	29,002	27,370	
Per audit	<u>16,027</u>	<u>27,603</u>	<u>26,143</u>	
Total variance	(4,345)	1,399	1,227	
Authorized student health fee	× \$9	× \$12	× \$12	
Audit adjustment	<u>\$ (39,105)</u>	<u>\$ 16,788</u>	<u>\$ 14,724</u>	\$ (7,593)

	Semester			Total
	Summer	Fall	Spring	
<u>Fiscal Year 2003-04</u>				
Student enrollment:				
Per claim	11,855	25,296	24,441	
Per audit	<u>10,750</u>	<u>23,950</u>	<u>22,737</u>	
Total variance	1,105	1,346	1,704	
Authorized student health fee	× \$9	× \$12	× \$12	
Audit adjustment	<u>\$ 9,945</u>	<u>\$ 16,152</u>	<u>\$ 20,448</u>	46,545
<u>Fiscal Year 2004-05</u>				
Student enrollment:				
Per claim	\$ 13,311	\$ 23,921	\$ 23,139	
Per audit	<u>10,904</u>	<u>22,381</u>	<u>21,574</u>	
Total variance	2,407	1,540	1,565	
Authorized student health fee	× \$10	× \$13	× \$13	
Audit adjustment	<u>\$ 24,070</u>	<u>\$ 20,020</u>	<u>\$ 20,345</u>	64,435
<u>Fiscal Year 2005-06</u>				
Student enrollment:				
Per claim	\$ 12,972	\$ 23,013	\$ 32,142	
Per audit	<u>12,187</u>	<u>21,386</u>	<u>31,149</u>	
Total variance	785	1,627	993	
Authorized student health fee	× \$11	× \$14	× \$14	
Audit adjustment	<u>\$ 8,635</u>	<u>\$ 22,778</u>	<u>\$ 13,902</u>	45,315
Total audit adjustment				<u>\$ 148,702</u>

The parameters and guidelines state 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 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. Effective January 1, 2006, BOGG grants are no longer an exclusion in calculating authorized health service fees per Chapter 320, Statutes of 2005 (Education Code section 76355(c)(3) was deleted).

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

Recommendation

We recommend that the district ensure that allowable health services program costs are offset by the amount of health services fee revenue authorized by the Education Code. We also recommend that the district report the summer term unduplicated student counts in the correct fiscal year.

District's Response

The district agreed with the audit finding.

**FINDING 5—
Understated offsetting
revenues**

The district understated other reimbursements for FY 2002-03 by \$119,197.

The district, in addition to health fees, collected other student fees and charges recorded in revenue account No. 88890 and other local income recorded in revenue account No. 88990. However, these revenues were not claimed as offsetting reimbursements in FY 2002-03.

The parameters and guidelines state that any offsetting savings the claimants experience as a direct result of this statute must be deducted from the costs claimed. It further states that reimbursement for this mandate received from any source—e.g., federal, state, etc.—must be identified and deducted from this claim.

Recommendation

We recommend that the district ensure that all applicable revenues on its claims are offset against its mandated program costs.

District's Response

The district agreed with the audit finding.

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



Ventura County Community College District

255 W. STANLEY AVE., SUITE 150, VENTURA, CA 93001
PH: 805-652-5500 FAX: 805-652-7700
WWW.VCCCD.EDU

DR. JAMES MEZNEK
CHANCELLOR

July 28, 2008

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

Re: Ventura County Community College District
Mandated Health Fee Elimination Program
July 1, 2002 through June 30, 2006

Dear Mr. Spano:

We are in receipt of your revised draft Audit Report issued July 2008. Please be advised that we are in agreement with the findings in the revised Audit Report.

We understand that the unallowable costs of \$671,926 will be deducted from the District's next reimbursement. We are also in agreement with this arrangement.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Sue Johnson
Vice Chancellor
Business and Administrative Services

SJ:lag

c: Mr. Jeffrey V. Brownfield, State Controller's Office
✓ Mr. Art Luna, State Controller's Office
Dr. James Meznek, Chancellor, VCCCD
Ms. Mary Anne McNeil, Director of Fiscal Services, VCCCD
Ms. Deborah LaTeer, District Budget Officer, VCCCD

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

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