

# **SAN MATEO COUNTY COMMUNITY COLLEGE DISTRICT**

Reissued 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, 2007*



**BETTY T. YEE**  
California State Controller

June 2017



**BETTY T. YEE**  
California State Controller

June 30, 2017

Thomas Mohr, President  
Board of Trustees  
San Mateo County Community College District  
3401 CSM Drive  
San Mateo, CA 94402

Dear Mr. Mohr:

The State Controller's Office audited the costs claimed by San Mateo County 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, 2007.

This reissued final audit report updates our previous final report, issued September 23, 2009. The previous report identified \$4,896 in overstated indirect costs for fiscal year (FY) 2004-05. On May 26, 2017, the Commission on State Mandates (Commission) issued a decision in response to an Incorrect Reduction Claim filed by the district for the Health Fee Elimination Program. In its decision, the Commission concluded that the reduction of indirect costs in FY 2004-05, based solely on the Controller's change to the claiming instructions and its use of the new indirect cost rate rule, without evidence that notice and an opportunity for comment was provided to the claimant, is an invalid underground regulation and the costs reduced should be reinstated to the district. In compliance with the Commission's decision, we reinstated the indirect costs for FY 2004-05. As a result, allowable costs increased by \$4,896, from \$851,646 to \$856,542.

The district claimed \$1,633,580 (\$1,644,580 less an \$11,000 penalty for filing late claims) for the mandated program. Our audit found that \$856,542 is allowable and \$777,038 is unallowable. The costs are unallowable because the district claimed unallowable services and supplies, understated indirect costs, understated authorized health service fees, and understated offsetting savings/reimbursements. The State paid the district \$851,646. Allowable costs claimed exceed the amount paid by \$4,896.

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, CPA  
Chief, Division of Audits

JVB/lb

cc: Ron Galatolo, Chancellor

San Mateo County Community College District

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San Mateo County Community College District

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# Reissued Audit Report

## Summary

The State Controller’s Office (SCO) audited the costs claimed by San Mateo County 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, 2007.

The district claimed \$1,633,580 (\$1,644,580 less an \$11,000 penalty for filing late claims) for the mandated program. Our audit found that \$856,542 is allowable and \$777,038 is unallowable. The costs are unallowable because the district claimed unallowable services and supplies, understated indirect costs, understated authorized health service fees, and understated offsetting savings/reimbursements. The State paid the district \$851,646. Allowable costs claimed exceed the amount paid by \$4,896.

## 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 (Commission) determined that Chapter 1, Statutes of 1984, 2<sup>nd</sup> 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 Commission 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 Commission adopted parameters and guidelines on August 27, 1987, and amended them on May 25, 1989. In compliance with Government Code (GC) 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, 2007.

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 GC 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 found 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, San Mateo County Community College District claimed \$1,633,580 (\$1,644,580 less an \$11,000 penalty for filing late claims) for costs of the Health Fee Elimination Program. Our audit found that \$856,542 is allowable and \$777,038 is unallowable. The State paid the district \$851,646. The State will pay allowable costs claimed that exceed the amount paid, totaling \$4,896, contingent upon available appropriations.

## **Views of Responsible Official**

We issued a draft audit report on July 22, 2009. Jim Keller, Executive Vice-Chancellor, responded by letter dated August 7, 2009, disagreeing with the audit results. We issued our initial final audit report on September 23, 2009. Subsequently, we revised our audit report to reinstate \$4,896 in indirect costs for FY 2004-05. We advised Nicole Wang, Controller, of the revision on June 1, 2017.

**Reason for Reissuance**

This reissued final audit report updates our previous final report, issued September 23, 2009. The previous report identified \$4,896 in overstated indirect costs for FY 2004-05. On May 26, 2017, the Commission issued a decision in response to an Incorrect Reduction Claim filed by the district for the Health Fee Elimination Program. In its decision, the Commission concluded that the reduction of indirect costs in FY 2004-05, based solely on the Controller's change to the claiming instructions and its use of the new indirect cost rate rule, without evidence that notice and an opportunity for comment was provided to the claimant, is an invalid underground regulation and the costs reduced should be reinstated to the district. In compliance with the Commission's decision, we reinstated the indirect costs for FY 2004-05. As a result, allowable costs increased by \$4,896, from \$851,646 to \$856,542.

**Restricted Use**

This report is solely for the information and use of San Mateo County 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, CPA  
Chief, Division of Audits

June 30, 2017

**Revised Schedule 1—  
Summary of Program Costs  
July 1, 2002, through June 30, 2007**

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	\$ 519,427	\$ 519,427	\$ —	
Benefits	103,896	103,896	—	
Services and supplies	41,381	41,381	—	
Total direct costs	664,704	664,704	—	
Indirect costs	199,411	186,997	(12,414)	Finding 2
Total direct and indirect costs	864,115	851,701	(12,414)	
Less authorized health service fees	(522,839)	(714,435)	(191,596)	Findings 3, 4
Less offsetting savings/reimbursements	—	(1,040)	(1,040)	Finding 5
Less late filing penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 340,276</u>	135,226	<u>\$ (205,050)</u>	
Less amount paid by the State		(135,226)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries	\$ 445,234	\$ 445,234	\$ —	
Benefits	101,340	101,340	—	
Services and supplies	29,612	27,857	(1,755)	Finding 1
Total direct costs	576,186	574,431	(1,755)	
Indirect costs	172,856	163,972	(8,884)	Finding 2
Total direct and indirect costs	749,042	738,403	(10,639)	
Less authorized health service fees	(515,832)	(590,862)	(75,030)	Findings 3, 4
Less offsetting savings/reimbursements	—	(11,931)	(11,931)	Finding 5
Total program costs	<u>\$ 233,210</u>	135,610	<u>\$ (97,600)</u>	
Less amount paid by the State		(135,610)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries	\$ 439,929	\$ 439,929	\$ —	
Benefits	103,247	103,247	—	
Services and supplies	67,491	66,413	(1,078)	Finding 1
Total direct costs	610,667	609,589	(1,078)	
Indirect costs	183,201	183,201	—	
Total direct and indirect costs	793,868	792,790	(1,078)	
Less authorized health service fees	(479,422)	(585,142)	(105,720)	Finding 4
Less offsetting savings/reimbursements	—	(23,454)	(23,454)	Finding 5
Total program costs	<u>\$ 314,446</u>	184,194	<u>\$ (130,252)</u>	
Less amount paid by the State		(179,298)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,896</u>		

**Revised Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries	\$ 522,997	\$ 522,997	\$ –	
Benefits	109,667	109,667	–	
Services and supplies	98,378	76,154	(22,224)	Finding 1
Total direct costs	731,042	708,818	(22,224)	
Indirect costs	219,313	224,554	5,241	Finding 2
Total direct and indirect costs	950,355	933,372	(16,983)	
Less authorized health service fees	(589,400)	(696,603)	(107,203)	Finding 4
Less offsetting savings/reimbursements	–	(19,497)	(19,497)	Finding 5
Less late filing penalty	(10,000)	(10,000)	–	
Total program costs	<u>\$ 350,955</u>	207,272	<u>\$ (143,683)</u>	
Less amount paid by the State		(207,272)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ –</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries	\$ 628,774	\$ 628,774	\$ –	
Benefits	116,430	116,430	–	
Services and supplies	122,521	86,290	(36,231)	Finding 1
Total direct costs	867,725	831,494	(36,231)	
Indirect costs	260,318	280,380	20,062	Finding 2
Total direct and indirect costs	1,128,043	1,111,874	(16,169)	
Less authorized health service fees	(733,350)	(899,184)	(165,834)	Finding 4
Less offsetting savings/reimbursements	–	(18,450)	(18,450)	Finding 5
Total program costs	<u>\$ 394,693</u>	194,240	<u>\$ (200,453)</u>	
Less amount paid by the State		(194,240)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ –</u>		
<u>Summary: July 1, 2002, through June 30, 2007</u>				
Direct costs:				
Salaries	\$ 2,556,361	\$ 2,556,361	\$ –	
Benefits	534,580	534,580	–	
Services and supplies	359,383	298,095	(61,288)	
Total direct costs	3,450,324	3,389,036	(61,288)	
Indirect costs	1,035,099	1,039,104	(4,005)	
Total direct and indirect costs	4,485,423	4,428,140	(57,283)	
Less authorized health service fees	(2,840,843)	(3,486,226)	(645,383)	
Less offsetting savings/reimbursements	–	(74,372)	(74,372)	
Less late filing penalty	(11,000)	(11,000)	–	
Total program costs	<u>\$ 1,633,580</u>	856,542	<u>\$ (777,038)</u>	
Less amount paid by the State		(851,646)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 4,896</u>		

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

# Revised Findings and Recommendations

**FINDING 1—  
Unallowable services  
and supplies**

The district claimed unallowable services and supplies totaling \$61,288. The district claimed \$7,976 to purchase food for exhibitors who participated in health fairs, to rent a popcorn cart, and to purchase various promotional items (mood lamps, curling ribbons, tattoo bracelets, etc.). In addition, the district claimed \$53,312 that it identified as a bad debt expense. The bad debt expense is related to uncollectible student health fees.

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2003-04	2004-05	2005-06	2006-07	
Services and supplies	\$ (1,755)	\$ (1,078)	\$ (22,224)	\$ (36,231)	\$ (61,288)

The program’s parameters and guidelines state that all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs. GC section 17514 defines “mandated costs” as any increased costs that the district is *required* to incur. GC section 17561 states that the Controller may reduce any excessive or unreasonable claim. Food and promotional item expenditures are not required to maintain health services at the level that the district provided during FY 1986-87.

The parameters and guidelines require that districts deduct authorized health service fees from health service expenditures claimed. Actual health service fees collected, along with uncollectible health service fees, are not relevant to the district’s mandated cost claim.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district claim only those services and supplies supported by its accounting records and required to maintain health services at the level provided in FY 1986-87.

**REVISED  
FINDING 2—  
Understated indirect  
costs**

The district misstated indirect costs for each fiscal year, resulting in understated indirect costs by \$4,005 for the audit period.

The district claimed indirect costs based on a federally approved rate of 30%. The district overstated FY 2002-03 and FY 2003-04 costs because it incorrectly applied the indirect cost rate to total direct costs. The district’s federal approval letter states that the approved direct cost base is salaries and benefits only. We applied the allowable indirect cost rate to allowable salaries and benefits.

For FY 2005-06, and FY 2006-07, the parameters and guidelines and the SCO’s claiming instructions do not allow the district to use a federally approved rate. We calculated allowable indirect cost rates based on the FAM-29C methodology that the parameters and guidelines and the SCO’s claiming instructions allow. We applied the allowable indirect cost rates to allowable direct costs according to the SCO’s claiming instructions.

We made no adjustment to indirect costs for FY 2004-05.

The following table summarizes the audit adjustment:

	Fiscal Year				Total
	2002-03	2003-04	2005-06	2006-07	
Allowable salaries and benefits	\$ 623,323	\$ 546,574	\$ -	\$ -	
Allowable direct costs	-	-	708,818	831,494	
Allowable indirect cost rate	× 30.00%	× 30.00%	× 31.68%	× 33.72%	
Allowable indirect costs	186,997	163,972	224,554	280,380	
Less indirect costs claimed	(199,411)	(172,856)	(219,313)	(260,318)	
Audit adjustment	\$ (12,414)	\$ (8,884)	\$ 5,241	\$ 20,062	\$ 4,005

The parameters and guidelines state:

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 2005-06 and FY 2006-07, 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 [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

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district claim Health Fee Elimination Program indirect costs based on indirect cost rates computed in accordance with the SCO’s FAM-29C methodology.

**FINDING 3—  
Miscellaneous revenue  
incorrectly reported as  
authorized health  
service fees**

The district incorrectly reported miscellaneous health service fund revenue totaling \$49,088 as authorized health service fees. This amount included gifts/donations, other local income, and incoming transfers. The district’s other local income is attributable to additional fees that the district charges for various health services that it provides. The incoming transfer amounts are transfers between the district’s general fund and its health services fund to cover any health services fund deficits. These transfers do not represent additional revenue to the district.

The following table summarizes the audit adjustment and the adjusted authorized health service fees claimed:

	Fiscal Year		Total
	2002-03	2003-04	
Gifts/donations (Account No. 8821)	\$ -	\$ 700	\$ 700
Other local income (Account No. 8890)	1,040	11,231	12,271
Incoming transfers (Account No. 8980)	4,506	31,611	36,117
Audit adjustment	5,546	43,542	\$ 49,088
Authorized health service fees claimed	(522,839)	(515,832)	
Adjusted authorized health service fees claimed	\$ (517,293)	\$ (472,290)	

The parameters and guidelines state:

Reimbursement for this mandate received from any source, e.g., federal, state, etc., shall be identified and deducted from this claim.

The SCO’s claiming instructions direct claimants to separately report authorized health service fees and other reimbursements. Except for incoming transfers, we recognized these revenues in our audit adjustment for understated offsetting savings/reimbursements in Finding 5.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district properly claim revenue as offsetting savings/reimbursements when the revenue is unrelated to the authorized student health fee.

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

The district understated authorized health service fees by \$694,471. The district understated these fees because it reported actual receipts rather than authorized fees. In addition, the district did not charge the health services fee to all eligible students. The district voluntarily excluded high school students concurrently enrolled in 11 units or less and students registered only for telecourses, off-campus classes, or weekend classes.

Mandated costs do not include costs that are reimbursable from authorized fees. GC section 17514 states that “costs mandated by the state” means any increased costs that 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, GC section 17556 states that the Commission 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.

For the period July 1, 2002, through December 31, 2005, Education Code section 76355, subdivision (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, only Education Code section 76355, subdivisions (c)(1) and (2) are applicable.

The California Community Colleges Chancellor's Office (CCCCO) identified the fees authorized by Education Code section 76355, subdivision (a). For FY 2002-03 and FY 2003-04, the authorized fees were \$12 per semester and \$9 per summer session. For FY 2004-05, the authorized fees were \$13 per semester and \$10 per summer session. For FY 2005-06, the authorized fees were \$14 per semester and \$11 per summer session. For FY 2006-07, the authorized fees were \$15 per semester and \$12 per summer session.

We obtained student enrollment and Board of Governors Grant (BOGG) recipient data from the CCCCCO. The CCCCCO identified enrollment and BOGG recipient data from its management information system (MIS) based on student data that the district reported. CCCCCO identified the district's enrollment based on CCCCCO's MIS data element STD7, codes A through G. CCCCCO eliminated any duplicate students based on their social security numbers. From the district enrollment, CCCCCO identified the number of BOGG recipients based on MIS data element SF21, all codes with first letter of B or F. The district does not have an apprenticeship program and it did not identify any students that it excluded from the health service fee pursuant to Education Code section 76355, subdivision (c)(1).

The following table shows the authorized health service fee calculation and audit adjustment:

	Summer Session	Fall Semester	Spring Semester	Total
<u>Fiscal Year 2002-03</u>				
Number of enrolled students	16,756	28,383	28,602	
Less number of BOGG recipients	<u>(2,341)</u>	<u>(4,026)</u>	<u>(4,234)</u>	
Subtotal	14,415	24,357	24,368	
Authorized health fee rate	× \$ (9)	× \$ (12)	× \$ (12)	
Authorized health service fees	<u>\$ (129,735)</u>	<u>\$ (292,284)</u>	<u>\$ (292,416)</u>	\$ (714,435)
Less adjusted authorized health service fees claimed (Finding 3)				<u>517,293</u>
Audit adjustment, FY 2002-03				<u>(197,142)</u>
<u>Fiscal Year 2003-04</u>				
Number of enrolled students	13,003	26,667	26,537	
Less number of BOGG recipients	<u>(2,205)</u>	<u>(5,906)</u>	<u>(6,158)</u>	
Subtotal	10,798	20,761	20,379	
Authorized health fee rate	× \$ (9)	× \$ (12)	× \$ (12)	
Authorized health service fees	<u>\$ (97,182)</u>	<u>\$ (249,132)</u>	<u>\$ (244,548)</u>	(590,862)
Less adjusted authorized health service fees claimed (Finding 3)				<u>472,290</u>
Audit adjustment, FY 2003-04				<u>(118,572)</u>
<u>Fiscal Year 2004-05</u>				
Number of enrolled students	12,937	24,493	26,165	
Less number of BOGG recipients	<u>(3,035)</u>	<u>(6,527)</u>	<u>(6,737)</u>	
Subtotal	9,902	17,966	19,428	
Authorized health fee rate	× \$ (10)	× \$ (13)	× \$ (13)	
Authorized health service fees	<u>\$ (99,020)</u>	<u>\$ (233,558)</u>	<u>\$ (252,564)</u>	(585,142)
Less authorized health service fees claimed				<u>479,422</u>
Audit adjustment, FY 2004-05				<u>(105,720)</u>
<u>Fiscal Year 2005-06</u>				
Number of enrolled students	13,210	24,339	24,815	
Less number of BOGG recipients	<u>(3,407)</u>	<u>(7,099)</u>	<u>—</u>	
Subtotal	9,803	17,240	24,815	
Authorized health fee rate	× \$ (11)	× \$ (14)	× \$ (14)	
Authorized health service fees	<u>\$ (107,833)</u>	<u>\$ (241,360)</u>	<u>\$ (347,410)</u>	(696,603)
Less authorized health service fees claimed				<u>589,400</u>
Audit adjustment, FY 2005-06				<u>(107,203)</u>
<u>Fiscal Year 2006-07</u>				
Number of enrolled students	12,512	24,672	25,264	
Authorized health fee rate	× \$ (12)	× \$ (15)	× \$ (15)	
Authorized health service fees	<u>\$ (150,144)</u>	<u>\$ (370,080)</u>	<u>\$ (378,960)</u>	(899,184)
Less authorized health service fees claimed				<u>733,350</u>
Audit adjustment, FY 2006-07				<u>(165,834)</u>
Total audit adjustment				<u>\$ (694,471)</u>

### Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant

program, 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 CCCCCO data element STD7, codes A through G. The district should eliminate duplicate entries for students who attend more than one district college. 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 denies health services to any portion of its student population, it should maintain contemporaneous documentation of a district policy that excludes those students from receiving health services and documentation identifying the number of students excluded.

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

The district understated offsetting savings/reimbursements by \$74,372. The district did not report offsetting savings/reimbursements for gifts/donations and other local income that its accounting records documented. The district recognized other local income because it charged students a separate fee for various health services that it provided.

The following table summarizes the audit adjustment:

	Fiscal Year					Total
	2002-03	2003-04	2004-05	2005-06	2006-07	
Gifts/donations (Account No. 8821)	\$ -	\$ (700)	\$ (5,500)	\$ -	\$ (500)	\$ (6,700)
Other local income (Account No. 8890)	(1,040)	(11,231)	(17,954)	(19,497)	(17,950)	(67,672)
Audit adjustment	<u>\$ (1,040)</u>	<u>\$ (11,931)</u>	<u>\$ (23,454)</u>	<u>\$ (19,497)</u>	<u>\$ (18,450)</u>	<u>\$ (74,372)</u>

The parameters and guidelines state:

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

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district report all offsetting savings/reimbursements on its mandated cost claims.

**FINDING 6—  
Inaccurate reporting  
and insufficient  
documentation of health  
services provided**

The district did not properly report health services provided and did not maintain sufficient documentation of health services provided. Our prior audit did not inform the district of these deficiencies; therefore, this audit report does not identify any unallowable costs attributable to these issues.

The district incorrectly reported the level of health services that it provided on mandated claim form HFE-1.1. The form required the district to report whether it provided health services in the claim year that were less than, the same as, or more than the services that it provided in FY 1986-87. For each fiscal year, the district reported that it provided the same level of services that it provided in FY 1986-87. However, the district's health service records show that the district provided more services than it provided in FY 1986-87. The additional services included physical examinations, pap smears, influenza immunizations, and hepatitis B immunizations. On claim form HFE-2, the district did not report that it provided these services in either FY 1986-87 or during the claim year. In addition, the district did not maintain records to document the actual time that employees spent and applicable materials and supplies costs associated with these additional services.

Also, the district did not sufficiently document actual health services that it provided. The district provided health service records that were inconsistent among colleges and fiscal years. The health service records do not identify actual services consistent with the level of detail included in the parameters and guidelines. The district's records either did not identify the services provided or identified the services provided using general, vague descriptions.

The parameters and guidelines identify reimbursable health services and state that the district will be reimbursed only for those services that it provided in FY 1986-87. They also state that the district must support salary and benefit costs claimed with documentation that shows the mandated functions performed. Furthermore, they state:

For auditing purposes, all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs. This would include documentation for the fiscal year 1986-87 program to substantiate a maintenance of effort. These documents must be kept on file by the agency submitting the claim. . . .

### Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program pursuant to GC section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district:

- Properly report the level of health services provided (i.e., whether the district provided health services in the claim year that are less than, the same as, or more than the services that it provided in FY 1986-87).
- Properly report the specific health services that it provided during the claim year.
- Maintain health service records identifying actual services that it provided in the same manner that the parameters and guidelines and the SCO's claim forms identify health services.
- Maintain records that document the actual time spent and applicable materials and supplies costs associated with health services exceeding the services that it provided in FY 1986-87.

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