

SAN DIEGO 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, 2003, through June 30, 2007



JOHN CHIANG
California State Controller

September 2010



JOHN CHIANG
California State Controller

September 15, 2010

Rich Grosch, President
Board of Trustees
San Diego Community College District
3375 Camino Del Rio South
San Diego, CA 92108-3883

Dear Mr. Grosch:

The State Controller's Office audited the costs claimed by San Diego Community College District for the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session, and Chapter 118, Statutes of 1987) for the period of July 1, 2003, through June 30, 2007.

This revised final report supersedes our previous report dated August 28, 2009. We revised Finding 2 to correct errors in the allowable indirect cost rates for fiscal year (FY) 2004-05 through FY 2006-07. As a result, allowable costs increased by \$84,840 for the audit period, from \$431,041 to \$515,881.

The district claimed \$810,987 for the mandated program. Our audit disclosed that \$515,881 is allowable and \$295,106 is unallowable. The costs are unallowable because the district understated direct costs, misstated indirect costs, understated authorized health service fees, and understated offsetting revenues/reimbursements. The State paid the district \$82,797. Allowable costs claimed exceed the amount paid by \$433,084.

The district previously filed an Incorrect Reduction Claim (IRC) on June 15, 2010. The district may file an amended IRC with the Commission on State Mandates (CSM) based on this revised final audit report. 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 the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

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: Constance M. Carroll, Chancellor
 San Diego Community College District
Judy Korab, Finance and Budget Analyst
 Business Services
 San Diego Community College District
Brett Bell, Vice President, Administrative Services
 Miramar College
Christine Atalig, Auditor
 Fiscal Services Unit
 California Community Colleges Chancellor's Office
Thomas Todd, Principal Program Budget Analyst
 Education Systems Unit
 Department of Finance
Jay Lal, Manager
 Division of Accounting and Reporting
 State Controller's Office

Contents

Revised Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	3
Restricted Use	3
Revised Schedule 1—Summary of Program Costs	4
Revised Findings and Recommendations	6
Attachment—District’s Response to Draft Audit Report	

Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Diego 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, 2003, through June 30, 2007.

The district claimed \$810,987 for the mandated program. Our audit disclosed that \$515,881 is allowable and \$295,106 is unallowable. The costs are unallowable because the district understated direct costs and related indirect costs, misstated indirect costs, understated authorized health service fees, and understated offsetting revenues/reimbursements. The State paid the district \$82,797. Allowable costs claimed exceed the amount paid by \$433,084.

Background

Chapter 1, Statutes of 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 program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted parameters and guidelines on August 27, 1987, and amended them on May 25, 1989. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Health Fee Elimination Program for the period of July 1, 2003, 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 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, San Diego Community College District claimed \$810,987 for costs of the Health Fee Elimination Program. Our audit disclosed that \$515,881 is allowable and \$295,106 is unallowable.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the district. Our audit disclosed that \$195,974 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$195,974, contingent upon available appropriations.

For the FY 2004-05 claim, the State made no payment to the district. Our audit disclosed that \$250,446 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$250,446, contingent upon available appropriations.

For the FY 2005-06 claim, the State made no payment to the district. Our audit disclosed that \$69,461 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$69,461, contingent upon available appropriations.

For the FY 2006-07 claim, the State paid the district \$82,797. Our audit disclosed that the claimed costs are unallowable. The State will offset \$82,797 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

**Views of
Responsible
Official**

We issued a draft audit report on July 17, 2009. Constance M. Carroll, Ph.D., Chancellor, responded by letter dated July 27, 2009 (Attachment), disagreeing with the audit results except for Finding 2 and portions of Finding 1.

We issued a final audit report on August 28, 2009. Subsequently, we revised Finding 2 to recalculate allowable indirect cost rates for FY 2004-05 through FY 2006-07. As a result, we revised the understated indirect costs in Finding 2 by \$142,466, from \$852,333 to \$994,799. The adjustment for FY 2004-05 and FY 2005-06 increased total allowable costs by \$84,840. The adjustment for FY 2006-07 did not affect allowable costs as program revenues exceeded program costs for that year.

We advised Brett Bell, Vice-President of Administrative Services, and Judy Korab, Finance and Budget Analyst, of the revisions on August 3, 2010. Charles W. Rogers, CPA, Controller, responded by e-mail on September 8, 2010, stating that the district has no response to the revised report.

Restricted Use

This report is solely for the information and use of San Diego Community College District, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

September 15, 2010

**Revised Schedule 1—
Summary of Program Costs
July 1, 2003, through June 30, 2007**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries	\$ 248,170	\$ 602,780	\$ 354,610	Finding 1
Benefits	50,737	131,555	80,818	Finding 1
Services and supplies	66,041	236,906	170,865	Finding 1
Total direct costs	364,948	971,241	606,293	
Indirect costs	167,876	277,279	109,403	Finding 2
Total direct and indirect costs	532,824	1,248,520	715,696	
Less authorized health service fees	(179,166)	(858,045)	(678,879)	Finding 3
Less offsetting revenues/reimbursements	—	(194,501)	(194,501)	Finding 4
Total program costs	<u>\$ 353,658</u>	195,974	<u>\$ (157,684)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 195,974</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Salaries	\$ 249,963	\$ 635,737	\$ 385,774	Finding 1
Benefits	50,415	133,137	82,722	Finding 1
Services and supplies	66,139	230,991	164,852	Finding 1
Total direct costs	366,517	999,865	633,348	
Indirect costs	102,625	350,153	247,528	Finding 2
Total direct and indirect costs	469,142	1,350,018	880,876	
Less authorized health service fees	(204,338)	(914,635)	(710,297)	Finding 3
Less offsetting revenues/reimbursements	—	(184,937)	(184,937)	Finding 4
Total program costs	<u>\$ 264,804</u>	250,446	<u>\$ (14,358)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 250,446</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries	\$ 290,792	\$ 634,533	\$ 343,741	Finding 1
Benefits	67,119	143,956	76,837	Finding 1
Services and supplies	9,684	249,698	240,014	Finding 1
Total direct costs	367,595	1,028,187	660,592	
Indirect costs	102,927	376,625	273,698	Finding 2
Total direct and indirect costs	470,522	1,404,812	934,290	
Less authorized health service fees	(360,794)	(1,158,159)	(797,365)	Finding 3
Less offsetting revenues/reimbursements	—	(177,192)	(177,192)	Finding 4
Total program costs	<u>\$ 109,728</u>	69,461	<u>\$ (40,267)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 69,461</u>		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries	\$ 417,287	\$ 885,431	\$ 468,144	Finding 1
Benefits	74,817	165,487	90,670	Finding 1
Services and supplies	23,519	276,874	253,355	Finding 1
Total direct costs	515,623	1,327,792	812,169	
Indirect costs	144,374	508,544	364,170	Finding 2
Total direct and indirect costs	659,997	1,836,336	1,176,339	
Less authorized health service fees	(577,200)	(1,600,947)	(1,023,747)	Finding 3
Less offsetting revenues/reimbursements	—	(295,522)	(295,522)	Finding 4
Subtotal	82,797	(60,133)	(142,930)	
Adjustment to eliminate negative balance	—	60,133	60,133	
Total program costs	<u>\$ 82,797</u>	—	<u>\$ (82,797)</u>	
Less amount paid by the State		(82,797)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (82,797)</u>		
<u>Summary: July 1, 2003, through June 30, 2007</u>				
Direct costs:				
Salaries	\$ 1,206,212	\$ 2,758,481	\$1,552,269	
Benefits	243,088	574,135	331,047	
Services and supplies	165,383	994,469	829,086	
Total direct costs	1,614,683	4,327,085	2,712,402	
Indirect costs	517,802	1,512,601	994,799	
Total direct and indirect costs	2,132,485	5,839,686	3,707,201	
Less authorized health service fees	(1,321,498)	(4,531,786)	(3,210,288)	
Less offsetting revenues/reimbursements	—	(852,152)	(852,152)	
Subtotal	810,987	455,748	(355,239)	
Adjustment to eliminate negative balance	—	60,133	60,133	
Total program costs	<u>\$ 810,987</u>	515,881	<u>\$ (295,106)</u>	
Less amount paid by the State		(82,797)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 433,084</u>		

¹ See the Findings and Recommendations section.

Revised Findings and Recommendations

FINDING 1— Understated direct costs

The district understated direct costs by \$2,712,402 for the audit period. The district understated the costs because it did not report direct costs (salaries, benefits, and services and supplies) applicable to the mandated program on a district-wide basis. While the district's claims included expenditures incurred for the operation of its health center at City College, the district's claims should have also included expenditures incurred for the operation of its health centers at Miramar College (\$727,537) and Mesa College (\$1,793,862). In addition, the district understated allowable costs incurred by City College's health center (\$191,003).

District representatives stated they did not claim reimbursement for the health centers at Miramar and Mesa Colleges because: (1) Miramar College did not operate a health center in fiscal year (FY) 1986-87, and (2) the health center at Mesa College did not maintain the same level of services as it did in FY 1986-87.

In addition, the district erroneously excluded City College's health center expenditures reported in its Miscellaneous Student Services Fund in FY 2003-04 and FY 2004-05, and health insurance premiums reported in its Health Services Fund in FY 2005-06 and FY 2006-07 from its reimbursement claims.

The following table summarizes the audit adjustments by fiscal year for each campus and cost component:

College	Direct Costs	Fiscal Year				Total
		2003-04	2004-05	2005-06	2006-07	
City College	Salaries	\$ 2,030	\$ 17,775	\$ —	\$ —	\$ 19,805
	Benefits	231	4,541	—	—	4,772
	Services and supplies	12,936	11,517	74,299	67,674	166,426
	Subtotal	15,197	33,833	74,299	67,674	191,003
Miramar College	Salaries	88,766	74,759	87,559	133,030	384,114
	Benefits	19,545	18,247	20,383	26,352	84,527
	Services and supplies	57,560	50,241	83,730	67,365	258,896
	Subtotal	165,871	143,247	191,672	226,747	727,537
Mesa College	Salaries	263,814	293,240	256,182	335,114	1,148,350
	Benefits	61,042	59,934	56,454	64,318	241,748
	Services and supplies	100,369	103,094	81,985	118,316	403,764
	Subtotal	425,225	456,268	394,621	517,748	1,793,862
Audit adjustment	\$606,293	\$633,348	\$660,592	\$812,169	\$2,712,402	
Summary by Cost Element						
Salaries		\$354,610	\$385,774	\$343,741	\$468,144	\$1,552,269
Benefits		80,818	82,722	76,837	90,670	331,047
Services and supplies		170,865	164,852	240,014	253,355	829,086
Audit adjustment		\$606,293	\$633,348	\$660,592	\$812,169	\$2,712,402

The parameters and guidelines (section III., Eligible Claimants) state:

Community college districts [emphasis added] which provided health services in the 1986-87 fiscal year and continue to provide the same services as a result of this mandate are eligible to claim reimbursement of those costs.

The parameters and guidelines (section V.A., Reimbursable Costs, Scope of Mandate) state:

Eligible *community college districts* [emphasis added] shall be reimbursed for the costs of providing a health services program. Only services provided in the 1986-87 fiscal year may be claimed.

The parameters and guidelines (section V.B., Reimbursable Costs, Reimbursable Activities) state:

For each eligible claimant, cost items are reimbursable to the extent they were provided by the community college district [emphasis added] in fiscal year 1986-87.

Therefore, the maintenance of effort is based on a “district” level and not on a “campus” level. As long as the district, as a whole, is providing the same level of health services as it did in the base year, the district is eligible to file a reimbursement claim. However, a reimbursement claim should include all expenditures incurred and offsetting revenues and reimbursements received that are applicable to the mandated program on a district-wide basis.

Recommendation

We recommend that the district prepare its reimbursement claims on a district-wide basis, thereby including all health service costs and offsetting revenues that are applicable to the mandated program.

District’s Response

SDCCD agrees that miscellaneous costs for City College’s health center were not claimed.

SDCCD also agrees that it excluded City College’s health center expenditures reported in its Miscellaneous Student Services Fund in FYs 2003-04 and 2004-05, and health insurance premiums reported in its Health Services Fund in FYs 2005-06 and 2006-07.

SDCCD does not agree that costs for Mesa College Health Center and Miramar College Health Center must be included on the City College Health Center claim.

The HFE Parameters and Guidelines (P&G) recognize that Community College Districts operate multiple centers. P&G Section I states that, “Chapter 1, Statutes of 1984, 2nd E.S. repealed Education Code Section 72246 (subsequently renumbered to 76355) which had authorized community college districts to charge a health fee for the purpose of providing health supervision and services, direct and indirect medical and hospitalization services, and operations of *student health centers*.” [emphasis added]. This environment of multiple centers would necessitate that Community College Districts submit HEF claims for multiple centers and not combine them on one claim.

HFE P&G section V further states that, “Only services provided in 1986-87 fiscal year may be claimed.” This condition is further supported by the Mandated Cost Claiming instructions Form HFE-1.1 section 4 that, “Indicate with a check mark, the level at which health services were provided during the fiscal year of reimbursement in comparison to the 1986-87 fiscal year. If the “Less” box is checked, STOP, do not complete the form. No reimbursement is allowed.”

The Mandated Cost Claiming instructions Form HFE-1.0 section 3 further requires that a listing of colleges identified as operating at 1986-87 levels be documented. As indicated in the Entrance Conference Miramar College did not operate a health center in FY 1986-87 and the health center at Mesa College did not maintain the same level of services as it did in 1986-87.

With the exception of a medical emergency, students who seek health services at a campus other than their campus of primary enrollment are directed to seek care at the health center of their campus of primary enrollment. Health fees collected from students are budgeted and expended at the campus of primary enrollment. Reciprocity is to be considered in extreme or emergency situations only.

Health Fee revenues, net of associated expenses, for the Mesa College Health Center and Miramar College Center must not be used to offset the cost of mandated services provided by City College Health Center.

Per the P&G the services and related costs for Mesa College Health Center and Miramar College Health Center may not be included on the City College HFE claim.

SCO's Comment

The finding and recommendation remain unchanged.

The district concurs with the portion of the finding regarding the excluded health center expenditures incurred by City College.

However, the district disagrees that the expenditures and revenues associated with the operation of its health centers at Mesa College and Miramar College should be included in its claims. In its response to the draft report, the district cites language from section I of the parameters and guidelines, in which the CSM refers to the operations of student health centers. The district concludes that this language necessitates the filing of multiple mandated cost claims if a district operates multiple health centers.

We disagree with the district's conclusion. Section I of the parameters and guidelines contains background information describing the statutory changes in California law that created the mandated program. This is the only section of the parameters and guidelines in which the CSM refers to “student health centers.” Section II of the parameters and guidelines describes the CSM's conclusions in its statement of decision, which it adopted on November 20, 1986. CSM concluded that the test claim legislation:

...imposed a “new program” upon *community college districts* [emphasis added] by requiring any community college district that provided health services for which it was authorized to charge a fee to maintain health services at the level provided during the 1984-85 fiscal year and each fiscal year thereafter.

We also reviewed the statement of decision. In Section II, Finding of Facts, item 6, states:

During fiscal year 1983-84 Rio Hondo Community College District provided a health services program [sic] and assessed a health services fee. Therefore, the Rio Hondo Community College District has incurred increased costs as a result of having to provide a health services program while having its authority to assess a health services fee removed.

This language supports our conclusion that districts incur mandated costs for the operation of a health services program. In turn, the operation of a health services program takes place in one or more student health centers that a district may operate. This language also appears in the parameters and guidelines. Section V.A. (Reimbursable Costs, Scope of Mandate) states:

Eligible community college districts shall be reimbursed for the costs of providing a health services program. Only services provided in 1986-87 fiscal year may be claimed.

In addition, Section V.B. (Reimbursable Costs, Reimbursable Activities) states:

For each eligible claimant, the following cost items are reimbursable to the extent they were provided by the community college district in fiscal year 1986-87.

Section V.B. goes on to list the specific health services that are reimbursable. However, there is no reference to costs only being reimbursable only for individual health centers. Section V.A. mentions “eligible community college districts” and section V.B. mentions “eligible claimants.” We conclude, therefore, that claimants are community college districts, not individual health centers, as the district suggests in its response.

The district also identifies language that appears on Form HFE 1.1 of the SCO’s claiming instructions. We concur that language appearing on this form for claims filed through FY 2006-07 appears to instruct claimants to omit specific health centers from a district’s claim if it does not provide the same level of services that were provided during FY 1986-87. Prior to FY 2007-08, Form HFE 1.1 asked for the name of the college on line (03) before addressing, on line (04), the level of services provided. However, the instructions for Form HFE 1.1 provide a bit more guidance.

Instruction (01) for Form HFE 1.1 states:

Enter the name of the claimant. Only a community college district (CCD) may file a claim with the State Controller’s Office on behalf of its colleges.

Instruction (03) for Form HFE 1.1 states:

Enter the name of the college or community college district that provided student health services in the 1986-87 fiscal year and continue to provide the same services during the fiscal year of claim.

Form HFE 1.1 was subsequently revised in SCO's claiming instructions, applicable for the filing of FY 2007-08 claims, to indicate the name of the college district on line (03) before addressing, on line (04), the level of health services provided in comparison to FY 1986-87.

While we concur that the claiming instructions used during the audit period may be construed as misleading, the SCO's claiming instructions are not authoritative unless specifically referenced by the parameters and guidelines. For example, section VI.B.3. of the parameters and guidelines refers to the claiming instructions for claiming indirect costs.

The district also states that health fee revenues, net of associated expenses, for the Mesa College and Miramar College health centers must not be used to offset the cost of mandated services provided at its City College health center. Once again, we disagree with the district's statement.

During the course of the audit, district representatives acknowledged that the health centers at its Mesa College and Miramar College campus sites operated at a profit and that the health center at City College operated at a loss. They also stated their belief that the health centers at Mesa College and Miramar College should not be subsidizing its health center at City College. For the purposes of this mandated program, it is not a matter of subsidy but of equity. It is not reasonable that the State should be liable to reimburse the district for one health center operating at a loss while the district enjoys the profits from the operations of its other two health centers. The language in the parameters and guidelines and the statement of decision refers to the operation of the district's health services program. The district's health services program comprises all three of its health centers. To the extent that the district's health services program operated at a loss, it is entitled to seek reimbursement from the State via a mandated cost claim.

**FINDING 2—
Understated indirect
costs**

The district understated indirect costs by \$994,799 for the audit period. For FY 2003-04, the district applied its federally approved indirect cost rate to the incorrect direct cost base when calculating indirect costs. For FY 2004-05 through FY 2006-07, the district incorrectly claimed indirect costs using a methodology that is not allowable per the program's parameters and guidelines.

The district claimed indirect costs based on an indirect cost rate prepared using Title 2, Code of Federal Regulations, Part 220 (Office of Management and Budget [OMB] Circular A-21) for each fiscal year of the audit period. For FY 2003-04, the SCO's claiming instructions allow the district to use a federally approved rate prepared in accordance with OMB Circular A-21. For FY 2004-05 through FY 2006-07, the parameters and guidelines and the SCO's claiming instructions do not allow the district to use a federally approved rate.

The district's approved rate for FY 2003-04 was based on employee salaries. However, the district incorrectly applied the approved rate to employee benefits, and services and supplies. However, because the district understated allowable costs for employee salaries, as noted in Finding 1, net allowable indirect costs were also understated.

We calculated the allowable indirect cost rates for FY 2004-05 through FY 2006-07 based on the FAM-29C methodology that the parameters and guidelines and the SCO's claiming instructions allow. We calculated allowable indirect cost rates each year by using the information contained in the California Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311). Our calculations revealed that for all three years, the district understated indirect cost rates claimed.

The following table summarizes the claimed, allowable indirect cost rates and the resulting audit adjustments:

Cost Element	Fiscal Year				Total
	2003-04	2004-05	2005-06	2006-07	
Allowable salaries	\$ 602,780	—	—	—	
Allowable direct costs	—	\$ 999,865	\$ 1,028,187	\$ 1,327,792	
Federally approved rate	× 46.00%	—	—	—	
FAM-29C indirect cost rate	—	× 35.02%	× 36.63%	× 38.30%	
Allowable indirect costs	277,279	350,153	376,625	508,544	
Less indirect costs claimed	(167,876)	(102,625)	(102,927)	(144,374)	
Audit adjustment	\$ 109,403	\$ 247,528	\$ 273,698	\$ 364,170	\$ 994,799

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

For FY 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 FYs 2004-05 through 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

We recommend that the district claim Health Fee Elimination program indirect costs based on the indirect costs rates computed in accordance with the SCO's claiming instructions. For subsequent Health Fee Elimination Program claims, the district should prepare its indirect cost rate proposal using the SCO's FAM-29C methodology.

District's Response

SDCCD agrees that the indirect costs for City College Health Center were mis-stated.

SCO's Comment

Subsequent to the issuance of the final audit report on August 28, 2009, we revised the calculations of allowable indirect cost rates for FY 2004-05, FY 2005-06, and FY 2006-07. Our original calculations excluded allowable depreciation expense the district incurred for capitol assets as an indirect cost on Form FAM-29C. We obtained the depreciation amounts for each year from Note 5 of the district's Basic Financial Statements (\$5,642,001 for FY 2004-05, \$8,085,500 for FY 2005-06, and \$7,780,084 for FY 2006-07). This increased the indirect cost rates for those three years to 35.02%, 36.63%, and 38.30%, respectively. As a result, we revised the understated indirect costs by \$142,466, from \$852,333 to \$994,799.

Our recommendation is unchanged.

**FINDING 3—
Understated authorized
health service fees**

The district understated authorized health service fees by \$3,210,288 for the audit period. While the district's claims included authorized health service fee revenues for City College, it should have also included authorized health service fee revenues for Miramar and Mesa Colleges.

Mandated costs do not include costs that are reimbursable from authorized fees. Government Code section 17514 states that "costs mandated by the state" means any increased costs that a school district is required to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, Government Code section 17556 states that the Commission on State Mandates 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.

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. The California Community Colleges Chancellor's Office (CCCCO) identified the fees authorized by Education Code section 76355, subdivision (a). The authorized fees for each summer term is \$9 for FY 2003-04, \$10 for FY 2004-05, \$11 for FY 2005-06, and \$12 for FY 2006-07. The authorized fees for each fall and spring semester is \$12 for FY 2003-04, \$13 for FY 2004-05, \$14 for FY 2005-06, and \$15 for FY 2006-07.

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

The following table shows the authorized health fee calculation and audit adjustment for each fiscal year:

	Summer Term	Fall Semester	Spring Semester	Total
<u>FY 2003-04</u>				
Number of enrolled students	20,948	44,300	44,189	
Less BOGG recipients	(6,227)	(13,501)	(13,713)	
Less apprenticeship enrollees	—	(420)	(391)	
Less religious exemptions	—	(1)	—	
Students subject to health service fee	14,721	30,378	30,085	
Health service fee	× \$ (9)	× \$ (12)	× \$ (12)	
Authorized health service fees	<u>\$ (132,489)</u>	<u>\$ (364,536)</u>	<u>\$ (361,020)</u>	\$ (858,045)
Less authorized health service fees claimed				<u>179,166</u>
Audit adjustment, FY 2003-04				<u>(678,879)</u>

	Summer Term	Fall Semester	Spring Semester	Total
<u>FY 2004-05</u>				
Number of enrolled students	21,367	44,529	45,907	
Less BOGG recipients	(6,714)	(14,768)	(15,399)	
Less apprenticeship enrollees	—	(612)	(572)	
Students subject to health service fee	14,653	29,149	29,936	
Health service fee	× \$ (10)	× \$ (13)	× \$ (13)	
Authorized health service fees	<u>\$ (146,530)</u>	<u>\$ (378,937)</u>	<u>\$ (389,168)</u>	(914,635)
Less authorized health service fees claimed				<u>204,338</u>
Audit adjustment, FY 2004-05				<u>(710,297)</u>
<u>FY 2005-06</u>				
Number of enrolled students	21,500	43,186	44,423	
Less BOGG recipients	(7,419)	(14,759)	—	
Less apprenticeship enrollees	—	(602)	(586)	
Student enrollment subject to health service fee	14,081	27,825	43,837	
Health service fee	× \$ (11)	× \$ (14)	× \$ (14)	
Authorized health service fees	<u>\$ (154,891)</u>	<u>\$ (389,550)</u>	<u>\$ (613,718)</u>	(1,158,159)
Less authorized health service fees claimed				<u>360,794</u>
Audit adjustment, FY 2005-06				<u>(797,365)</u>
<u>FY 2006-07</u>				
Number of enrolled students	21,576	44,311	46,544	
Less apprenticeship enrollees	—	(669)	(708)	
Less religious exemptions	—	(3)	(6)	
Students subject to health service fee	21,576	43,639	45,830	
Health service fee	× \$ (12)	× \$ (15)	× \$ (15)	
Authorized health service fees	<u>\$ (258,912)</u>	<u>\$ (654,585)</u>	<u>\$ (687,450)</u>	(1,600,947)
Less authorized health service fees claimed				<u>577,200</u>
Audit adjustment, FY 2006-07				<u>(1,023,747)</u>
Total audit adjustment				<u>\$ (3,210,288)</u>

Recommendation

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

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

District's Response

SDCCD does not agree that fees for Mesa College Health Center and Miramar College Health Center must be included on the City College Health Center claim.

The HFE Parameters and Guidelines recognize that Community College Districts operate multiple centers. P&G Section I states that, "Chapter 1, Statutes of 1984, 2nd E.S. repealed Education Code Section 72246 (subsequently renumbered to 76355) which had authorized community college districts to charge a health fee for the purpose of providing health supervision and services, direct and indirect medical and hospitalization services, and operations of *student health centers*." [emphasis added]. This environment of multiple centers would necessitate the Community College Districts submit HEF claims for multiple centers and not combine them on one claim.

HFE P&G section V further states that, "Only services provided in 1986-87 fiscal year may be claimed." This condition is further supported by the Mandated Cost Claiming instructions Form HFE-1.1 section 4 that, "Indicate with a check mark, the level at which health services were provided during the fiscal year of reimbursement in comparison to the 1986-87 fiscal year. If the "Less" box is checked, STOP, do not complete the form. No reimbursement is allowed."

The Mandated Cost Claiming instructions Form HFE-1.0 section 3 further requires that a listing of colleges identified as operating at 1986-87 levels be documented. As indicated in the Entrance Conference Miramar College did not operate a health center in FY 1986-87 and the health center at Mesa College did not maintain the same level of services as it did in 1986-87.

With the exception of a medical emergency, students who seek health services at a campus other than their campus of primary enrollment are directed to seek care at the health center of their campus of primary enrollment. Health fees collected from students are budgeted and expended at the campus of primary enrollment. Reciprocity is to be considered in extreme or emergency situations only.

Health Fee revenues, net of associated expenses, for the Mesa College Health Center and Miramar College Center must not be used to offset the cost of mandated services provided by City College Health Center.

Per the P&G the related fees for Mesa College Health Center and Miramar College Health Center may not be included on the City College HFE claim.

SCO's Comment

The finding and recommendation remain unchanged.

The district believes that health service fees collected for its health centers at Miramar College and Mesa College should not be included in its mandated cost claims. The language presented by the district is identical to the language presented for Finding 1 (Understated direct costs and related indirect costs). Accordingly, our comments are the same as those cited in Finding 1.

**FINDING 4—
Understated
offsetting revenues/
reimbursements**

The district understated offsetting savings/reimbursements by \$852,152. The district received student insurance fees of \$725,187 and health services program-related revenue from various sources totaling \$126,965 that were not reported on its mandated cost claims.

The parameters and guidelines (section VIII., Offsetting Savings and Other Reimbursements) state:

Any offsetting savings . . . [received] 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.

The following table summarizes the audit adjustments for insurance fees and local revenues received by each college for each fiscal year of the audit period:

	Fiscal Year				Total
	2003-04	2004-05	2005-06	2006-07	
Insurance fees:					
City College	\$ 39,555	\$ 36,854	\$ 37,722	\$ 77,354	\$ 191,485
Miramar College	37,977	36,037	36,601	61,279	171,894
Mesa College	89,400	80,759	74,456	117,193	361,808
Subtotal	<u>166,932</u>	<u>153,650</u>	<u>148,779</u>	<u>255,826</u>	<u>725,187</u>
Local revenue:					
City College	13,521	12,392	11,755	18,164	55,832
Miramar College	3,780	5,952	4,202	8,242	22,176
Mesa College	10,268	12,943	12,456	13,290	48,957
Subtotal	<u>27,569</u>	<u>31,287</u>	<u>28,413</u>	<u>39,696</u>	<u>126,965</u>
Audit adjustment	<u>\$ 194,501</u>	<u>\$ 184,937</u>	<u>\$ 177,192</u>	<u>\$ 295,522</u>	<u>\$ 852,152</u>

Recommendation

We recommend that the district report all health services program-related offsetting savings and/or reimbursements on its mandated cost claims.

District's Response

SDCCD agrees that offsetting revenues/reimbursements for the City College Health Center were understated.

SDCCD does not agree that offsetting revenues/reimbursements for Mesa College Health Center and Miramar College Health Center must be included on the City College Health Center claim.

The HFE Parameters and Guidelines recognize that Community College Districts operate multiple centers. P&G Section I states that, "Chapter 1, Statutes of 1984, 2nd E.S. repealed Education Code Section 72246 (subsequently renumbered to 76355) which had authorized community college districts to charge a health fee for the purpose of providing health supervision and services, direct and indirect medical and hospitalization services, and operations of *student health centers*." [emphasis added]. This environment of multiple centers would necessitate the Community College Districts submit HEF claims for multiple centers and not combine them on one claim.

HFE P&G section V further states that, “Only services provided in 1986-87 fiscal year may be claimed.” This condition is further supported by the Mandated Cost Claiming instructions Form HFE-1.1 section 4 that, “Indicate with a check mark, the level at which health services were provided during the fiscal year of reimbursement in comparison to the 1986-87 fiscal year. If the “Less” box is checked, STOP, do not complete the form. No reimbursement is allowed.”

The Mandated Cost Claiming instructions Form HFE-1.0 section 3 further requires that a listing of colleges identified as operating at 1986-87 levels be documented. As indicated in the Entrance Conference Miramar College did not operate a health center in FY 1986-87 and the health center at Mesa College did not maintain the same level of services as it did in 1986-87.

As indicated in the Entrance Conference Miramar College did not operate a health center in FY 1986-87 and the health center at Mesa College did not maintain the same level of services as it did in 1986-87.

With the exception of a medical emergency, students who seek health services at a campus other than their campus of primary enrollment are directed to seek care at the health center of their campus of primary enrollment. Health fees collected from students are budgeted and expended at the campus of primary enrollment. Reciprocity is to be considered in extreme or emergency situations only.

Health Fee revenues, net of associated expenses, for the Mesa College Health Center and Miramar College Center must not be used to offset the cost of mandated services provided by City College Health Center.

Per the P&G the related fees for Mesa College Health Center and Miramar College Health Center may not be included on the City College HFE claim.

SCO's Comment

The finding and recommendation remain unchanged.

The district believes that offsetting revenues/reimbursements for its health centers at Miramar College and Mesa College should not be included in its mandated cost claims. The language presented by the district is identical to the language presented for Finding 1 (Understated direct costs and related indirect costs). Accordingly, our comments are the same as those cited in Finding 1.

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



SAN DIEGO COMMUNITY COLLEGE DISTRICT

3375 Camino del Rio South
San Diego, California 92108-3883
619-388-6500

CITY COLLEGE | MESA COLLEGE | MIRAMAR COLLEGE | CONTINUING EDUCATION

Office of the Chancellor
619-388-6957

July 27, 2009

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

Dear Mr. Spano,

The San Diego Community College District questions the accuracy and rational of including Mesa College and Miramar College on the City College Health Fee Elimination Claim. The rationale to support this direction is based in the application and interpretation of the Health Fee Elimination Parameters and Guidelines and the current and historical claiming instructions provided by the Controller's Office of Mandated Costs.

In response to your letter dated July 17, 2009 we offer the following comments.

Finding #1 Understated direct costs and related indirect costs

SDCCD agrees that miscellaneous costs for City College's health center were not claimed.

SDCCD also agrees that it excluded City College's health center expenditures reported in its Miscellaneous Student Services Fund in FYs 2003-04 and 2004-05, and health insurance premiums reported in its Health Services Fund in FYs 2005-06 and 2006-07.

SDCCD does not agree that costs for Mesa College Health Center and Miramar College Health Center must be included on the City College Health Center claim.

The HFE Parameters and Guidelines (P&G) recognize that Community College Districts operate multiple centers. P&G Section I states that, "Chapter 1, Statues of 1984, 2nd E.S. repealed Education Code Section 72246 (subsequently renumbered to 76355) which had authorized community college districts to charge a health fee for the purpose of providing health supervision and services, direct and indirect medical and hospitalization services, and operations of *student health centers*." [emphasis added]. This environment of

July 27, 2009

multiple centers would necessitate that Community College Districts submit HEF claims for multiple centers and not combine them on one claim.

HFE P&G section V further states that, "Only services provided in 1986-87 fiscal year may be claimed." This condition is further supported by the Mandated Cost Claiming instructions Form HFE-1.1 section 4 that, "Indicate with a check mark, the level at which health services were provided during the fiscal year of reimbursement in comparison to the 1986-87 fiscal year. If the "Less" box is checked, STOP, do not complete the form. No reimbursement is allowed."

The Mandated Cost Claiming instructions Form HFE-1.0 section 3 further requires that a listing of colleges identified as operating at 1986-87 levels be documented. As indicated in the Entrance Conference Miramar College did not operate a health center in FY 1986-87 and the health center at Mesa College did not maintain the same level of services as it did in 1986-87.

With the exception of a medical emergency, students who seek health services at a campus other than their campus of primary enrollment are directed to seek care at the health center of their campus of primary enrollment. Health fees collected from students are budgeted and expended at the campus of primary enrollment. Reciprocity is to be considered in extreme or emergency situations only.

Health Fee revenues, net of associated expenses, for the Mesa College Health Center and Miramar College Center must not be used to offset the cost of mandated services provided by City College Health Center.

Per the P&G the services and related costs for Mesa College Health Center and Miramar College Health Center may not be included on the City College HFE claim.

Finding #2 Mis-stated indirect costs

SDCCD agrees that the indirect costs for City College Health Center were mis-stated.

Finding #3 Understated authorized health service fees

SDCCD does not agree that fees for Mesa College Health Center and Miramar College Health Center must be included on the City College Health Center claim.

The HFE Parameters and Guidelines recognize that Community College Districts operate multiple centers. P&G Section I states that, "Chapter 1, Statutes of 1984, 2nd E.S. repealed Education Code Section 72246 (subsequently renumbered to 76355) which had authorized community college districts to charge a health fee for the purpose of providing health supervision and services, direct and indirect medical and hospitalization services, and operations of *student health centers*." [emphasis added]. This environment of multiple centers would necessitate that Community College Districts submit HEF claims for multiple centers and not combine them on one claim.

July 27, 2009

HFE P&G section V further states that, "Only services provided in 1986-87 fiscal year may be claimed." This condition is further supported by the Mandated Cost Claiming instructions Form HFE-1.1 section 4 that, "Indicate with a check mark, the level at which health services were provided during the fiscal year of reimbursement in comparison to the 1986-87 fiscal year. If the "Less" box is checked, STOP, do not complete the form. No reimbursement is allowed."

The Mandated Cost Claiming instructions Form HFE-1.0 section 3 further requires that a listing of colleges identified as operating at 1986-87 levels be documented. As indicated in the Entrance Conference Miramar College did not operate a health center in FY 1986-87 and the health center at Mesa College did not maintain the same level of services as it did in 1986-87.

With the exception of a medical emergency, students who seek health services at a campus other than their campus of primary enrollment are directed to seek care at the health center of their campus of primary enrollment. Health fees collected from students are budgeted and expended at the campus of primary enrollment. Reciprocity is to be considered in extreme or emergency situations only.

Health Fee revenues, net of associated expenses, for the Mesa College Health Center and Miramar College Center must not be used to offset the cost of mandated services provided by City College Health Center.

Per the P&G the related fees for Mesa College Health Center and Miramar College Health Center may not be included on the City College HFE claim.

Finding #4 Understated offsetting revenues/reimbursements

SDCCD agrees that offsetting revenues/reimbursements for the City College Health Center were understated.

SDCCD does not agree that offsetting revenues/reimbursements for Mesa College Health Center and Miramar College Health Center must be included on the City College Health Center claim.

The HFE Parameters and Guidelines recognize that Community College Districts operate multiple centers. P&G Section I states that, "Chapter 1, Statutes of 1984, 2nd E.S. repealed Education Code Section 72246 (subsequently renumbered to 76355) which had authorized community college districts to charge a health fee for the purpose of providing health supervision and services, direct and indirect medical and hospitalization services, and operations of *student health centers*." [emphasis added]. This environment of multiple centers would necessitate that Community College Districts submit HEF claims for multiple centers and not combine them on one claim.

July 27, 2009

HFE P&G section V further states that, "Only services provided in 1986-87 fiscal year may be claimed." This condition is further supported by the Mandated Cost Claiming instructions Form HFE-1.1 section 4 that, "Indicate with a check mark, the level at which health services were provided during the fiscal year of reimbursement in comparison to the 1986-87 fiscal year. If the "Less" box is checked, STOP, do not complete the form. No reimbursement is allowed."

The Mandated Cost Claiming instructions Form HFE-1.0 section 3 further requires that a listing of colleges identified as operating at 1986-87 levels be documented.

As indicated in the Entrance Conference Miramar College did not operate a health center in FY 1986-87 and the health center at Mesa College did not maintain the same level of services as it did in 1986-87.

As indicated in the Entrance Conference Miramar College did not operate a health center in FY 1986-87 and the health center at Mesa College did not maintain the same level of services as it did in 1986-87.

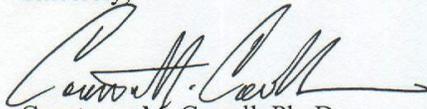
With the exception of a medical emergency, students who seek health services at a campus other than their campus of primary enrollment are directed to seek care at the health center of their campus of primary enrollment. Health fees collected from students are budgeted and expended at the campus of primary enrollment. Reciprocity is to be considered in extreme or emergency situations only.

Health Fee revenues, net of associated expenses, for the Mesa College Health Center and Miramar College Center must not be used to offset the cost of mandated services provided by City College Health Center.

Per the P&G these offsetting revenues/reimbursements for Mesa College Health Center and Miramar College Health Center may not be included on the City College HFE claim.

In conclusion, the San Diego Community College District requests that the Mandated Cost Audits Bureau reconsider its findings related to the inclusion of Mesa College and Miramar College on the City College Health Fee Elimination claims for the period of July 1, 2003, through June 30, 2007.

Sincerely,



Constance M. Carroll, Ph. D.
Chancellor

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

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