

# **SAN BERNARDINO COMMUNITY COLLEGE DISTRICT**

Revised Audit Report

## **HEALTH FEE ELIMINATION PROGRAM**

Chapter 1, Statutes of 1984, Second Extraordinary Session;  
and Chapter 1118, Statutes of 1987

*July 1, 2001, through June 30, 2003*



**JOHN CHIANG**  
California State Controller

June 2014



**JOHN CHIANG**  
**California State Controller**

June 23, 2014

Donna Ferracone, President  
Board of Trustees  
San Bernardino Community College District  
114 South Del Rosa Drive  
San Bernardino, CA 92408

Dear Ms. Ferracone:

The State Controller's Office audited the claims filed by the San Bernardino Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, Second Extraordinary Session; and Chapter 1118, Statutes of 1987) for the period of July 1, 2001, through June 30, 2003.

This revised final audit report supersedes our previous final report, issued on November 10, 2004. We revised Finding 1 of the final report to allow costs for flu shots, hepatitis shots, and outside laboratory services based on a statement of decision adopted by the Commission on State Mandates (CSM) on January 24, 2014. The statement of decision responded to an incorrect reduction claim the district filed with the CSM on the audit adjustments. This revision increased allowable costs by \$93,234, from \$520,246 to \$613,480.

The district claimed \$1,130,569 for the mandated program. Our audit found that \$613,480 is allowable and \$517,089 is unallowable. The costs are unallowable because the district claimed ineligible costs, overstated indirect costs, and understated revenue offsets. The State paid the district \$520,246. The State will pay allowable costs claimed that exceed the amount paid, totaling \$93,234, contingent upon available appropriations.

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

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD, CPA**  
Chief, Division of Audits

JVB/sk

cc: Bruce Baron, Chancellor

San Bernardino Community College District

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# Revised Audit Report

## Summary

The State Controller's Office (SCO) audited the claims filed by the San Bernardino Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, Second Extraordinary Session; and Chapter 1118, Statutes of 1987) for the period of July 1, 2001, through June 30, 2003.

The district claimed \$1,130,569 for the mandated program. The audit found that \$613,480 is allowable and \$517,089 is unallowable. The costs are unallowable because the district claimed ineligible costs, overstated indirect costs, and understated revenue offsets. The State paid the district \$520,246. The State will pay allowable costs claimed that exceed the amount paid, totaling \$93,234, contingent upon available appropriations.

## Background

Chapter 1, Statutes of 1984, Second Extraordinary Session repealed Education Code section 72246, which authorized community college districts to charge a health fee for providing health supervision and services, direct and indirect medical and hospitalization services, and operation of student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating the community college districts' authority to charge a health 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 1986-97 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (CSM) determined that Chapter 1, Statutes of 1984, Second Extraordinary Session, imposed a "new program" upon community college districts, by requiring any community college district that provided health services in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applies to all community college districts that levied a health services 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, and required them to maintain that level in FY 1987-88 and each fiscal year thereafter.

The program parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted parameters and guidelines on August 27, 1987, and amended them on May 25, 1989, and January 29, 2010. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist community college 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, 2001, through June 30, 2003.

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 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, the San Bernardino Community College District claimed \$1,130,569 for Health Fee Elimination Program costs. Our audit found that \$613,480 is allowable and \$517,089 is unallowable. The State paid the district \$520,246. The State will pay allowable costs claimed that exceed the amount paid, totaling \$93,234, contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a final audit report on November 10, 2004. We revised the final report based on a statement of decision adopted by the CSM on January 24, 2014. The statement of decision responded to an incorrect reduction claim the district filed with the CSM on the audit adjustments. Based on the CSM decision, we eliminated the audit adjustments for flu shots, hepatitis shots, and outside laboratory services. This revision increased allowable costs by \$93,234, from \$520,246 to \$613,480, consisting of \$78,978 in salaries and \$14,256 in related indirect costs. Lawrence P. Strong, Director, Internal Audits, responded via email on April 14, 2014, stating that the district will not be providing a response to the revised audit results.

**Restricted Use**

This report is solely for the information and use of the San Bernardino 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 23, 2014

**Revised Schedule 1—  
Summary of Program Costs  
July 1, 2001, through June 30, 2003**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries	\$ 367,585	\$ 359,889	\$ (7,696)	Finding 1
Benefits	54,560	54,560	—	
Services and supplies	123,819	86,471	(37,348)	Finding 2
Total direct costs	545,964	500,920	(45,044)	
Indirect costs	210,961	94,524	(116,437)	Finding 3
Total direct and indirect costs	756,925	595,444	(161,481)	
Less cost of services in excess of FY 1986-87 services	(2,564)	(2,564)	—	
Less authorized health service fees	(231,122)	(328,764)	(97,642)	Finding 4
Less offsetting savings/reimbursements	(13,389)	(13,389)	—	
Total program costs	<u>\$ 509,850</u>	250,727	<u>\$ (259,123)</u>	
Less amount paid by the State		(210,676)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 40,051</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries	\$ 402,669	\$ 386,215	\$ (16,454)	Finding 1
Benefits	59,734	59,734	—	
Services and supplies	159,834	121,512	(38,322)	Finding 2
Total direct costs	622,237	567,461	(54,776)	
Indirect costs	249,766	98,965	(150,801)	Finding 3
Total direct and indirect costs	872,003	666,426	(205,577)	
Less authorized health service fees	(234,810)	(287,199)	(52,389)	Finding 4
Less offsetting savings/reimbursements	(16,474)	(16,474)	—	
Total program costs	<u>\$ 620,719</u>	362,753	<u>\$ (257,966)</u>	
Less amount paid by the State		(309,570)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 53,183</u>		

## Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>Summary: July 1, 2001, through June 30, 2003</u>				
Direct costs:				
Salaries	\$ 770,254	\$ 746,104	\$ (24,150)	
Benefits	114,294	114,294	—	
Services and supplies	<u>283,653</u>	<u>207,983</u>	<u>(75,670)</u>	
Total direct costs	1,168,201	1,068,381	(99,820)	
Indirect costs	<u>460,727</u>	<u>193,489</u>	<u>(267,238)</u>	
Total direct and indirect costs	1,628,928	1,261,870	(367,058)	
Less cost of services in excess of FY 1986-87 services	(2,564)	(2,564)	—	
Less authorized health service fees	(465,932)	(615,963)	(150,031)	
Less offsetting savings/reimbursements	<u>(29,863)</u>	<u>(29,863)</u>	<u>—</u>	
Total program costs	<u>\$1,130,569</u>	613,480	<u>\$ (517,089)</u>	
Less amount paid by the State		<u>(520,246)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 93,234</u>		

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

# Revised Findings and Recommendations

**FINDING 1—  
Overstated health  
services**

The district overstated health services costs by \$24,150 for the audit period.

The costs are unallowable because claimed services were not provided in FY 1986-87. These costs include pap smears for San Bernardino Valley College and marriage therapy for Crafton Hills College.

The following table summarizes the audit adjustment:

	Fiscal Year		Total
	2001-02	2002-03	
San Bernardino Valley College	\$ (7,696)	\$ (10,742)	\$ (18,438)
Crafton Hills College	—	(5,712)	(5,712)
Audit adjustment	<u>\$ (7,696)</u>	<u>\$ (16,454)</u>	<u>\$ (24,150)</u>

The program parameters and guidelines specify that community college districts shall only be reimbursed the costs of health services provided to the extent they were provided by the district in FY 1986-87.

Recommendation

Commencing in FY 2013-14, the district elected to participate in a block grant program, pursuant to Government Code 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 ensure it only claims costs of health services that were provided by the district in FY 1986-87.

**FINDING 2—  
Overstated services  
and supplies**

The district overstated service and supply costs by \$75,670 because it claimed ineligible athletic insurance costs of \$72,554 and did not support costs of \$3,116.

The following table summarizes the audit adjustment:

	Fiscal Year		Total
	2001-02	2002-03	
Athletic insurance costs	\$ (37,348)	\$ (35,206)	\$ (72,554)
Unsupported costs	—	(3,116)	(3,116)
Audit adjustment	<u>\$ (37,348)</u>	<u>\$ (38,322)</u>	<u>\$ (75,670)</u>

The parameters and guidelines state that community college districts shall be reimbursed only for costs of health services programs that are traceable to supporting documentation showing evidence of the validity of such costs. Also, Education Code section 76355, subdivision (d), (formerly section 72246(2)) states that authorized expenditures for health services shall not include the cost of athletic insurance.

Recommendation

Commencing in FY 2013-14, the district elected to participate in a block grant program, pursuant to Government Code 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 ensure all claimed costs are eligible and supported.

**FINDING 3—  
Overstated indirect  
cost rate claimed**

The district overstated indirect costs by \$267,238 for the audit period.

The district claimed indirect costs based on an indirect cost rate proposal prepared for each fiscal year by an outside consultant. However, the district did not obtain federal approval for its rate. We calculated indirect cost rates using the methodology allowed by the SCO’s claiming instructions. The calculated indirect cost rates did not support the indirect cost rates claimed.

A summary of the claimed and audited indirect cost rates is as follows:

	Fiscal Year	
	2001-02	2002-03
Allowable indirect cost rate based on total direct costs	18.87%	17.44%
Claimed indirect cost rate based on total direct costs	38.64%	40.14%

The following table summarizes the audit adjustment:

	Fiscal Year		Total
	2001-02	2002-03	
Allowable direct costs claimed	\$ 500,920	\$ 567,461	
Allowable indirect cost rate	× 18.87%	× 17.44%	
Allowable indirect costs	94,524	98,965	
Less claimed indirect costs	(210,961)	(249,766)	
Audit adjustment	\$ (116,437)	\$ (150,801)	\$ (267,238)

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

The SCO’s claiming instructions state that community colleges have the option of using a federally approved rate prepared in accordance with OMB Circular A-21 or the alternate methodology using State Controller’s Form FAM-29C, which is based on total expenditures as reported in California Community Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311).

Recommendation

Commencing in FY 2013-14, the district elected to participate in a block grant program, pursuant to Government Code 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 ensure indirect costs claimed are computed using a federally approved rate prepared in accordance with OMB Circular A-21, or the SCO’s alternate methodology using Form FAM-29C.

**FINDING 4—  
Understated  
authorized health fee  
revenues claimed**

The district understated authorized health fee revenue by \$150,031 for the audit period.

The district reduced claimed costs by actual rather than authorized health fee revenues. Therefore, we recalculated authorized health fee revenues by multiplying student enrollment by term net of allowable BOGG waivers by the authorized student health fee.

We obtained student enrollment information from the term unit report. We obtained the Board of Governors Grant (BOGG) waivers from the BOGG report. We did not deduct students attending a community college under an approved apprenticeship training program as the district did not report any deductions to the California Community Colleges Chancellor's Office. In addition, we did not deduct students that depend exclusively on prayer for healing as the district did not provide any documentation related to this deduction.

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

	<u>Summer</u>	<u>Fall</u>	<u>Spring</u>	<u>Total</u>
<u>FY 2001-02</u>				
Student enrollment	9,485	16,519	17,640	
Less BOGG waivers	<u>(3,309)</u>	<u>(5,636)</u>	<u>(5,758)</u>	
Subtotals	6,176	10,883	11,882	
Authorized student health fee	× \$ 9	× \$ 12	× \$ 12	
Audited authorized health fee revenues	<u>\$ 55,584</u>	<u>\$130,596</u>	<u>\$142,584</u>	\$ 328,764
Claimed authorized health fee revenues				<u>(231,122)</u>
Audit adjustment, FY 2001-02				<u>97,642</u>
<u>FY 2002-03</u>				
Student enrollment	3,406	18,176	16,773	
Allowable health fee exemptions	<u>(1,595)</u>	<u>(6,102)</u>	<u>(6,272)</u>	
Subtotal	1,811	12,074	10,501	
Less BOGG waivers	× \$ 9	× \$ 12	× \$ 12	
Audited authorized health fee revenues	<u>\$ 16,299</u>	<u>\$144,888</u>	<u>\$126,012</u>	287,199
Claimed authorized health fee revenues				<u>(234,810)</u>
Audit adjustment, FY 2002-03				<u>52,389</u>
Total audit adjustment				<u>\$ 150,031</u>

Mandated costs do not include costs that are reimbursable from authorized health service 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), (effective during the audit period) states that health service 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 needs.

Recommendation

Commencing in FY 2013-14, the district elected to participate in a block grant program, pursuant to Government Code 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 CCCCO data element STD7, codes A through G.
- Maintain documentation that identifies the number of students excluded from the health service fee based on Education Code section 76355, subdivision (c)(1).

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