GLENDALE COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

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

July 1, 2005, through June 30, 2009

JOHN CHIANG
California State Controller

June 2012

JOHN CHIANG
California State Controller

June 5, 2012

Armine G. Hacopian, Ed.D., President
Board of Trustees
Glendale Community College District
1500 North Verdugo Road
Glendale, CA 91208

Dear Dr. Hacopian:

The State Controller's Office audited the costs claimed by the Glendale 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, 2005, through June 30, 2009.

The district claimed $870,139 for the mandated program. Our audit disclosed that $4,366 is allowable and $865,773 is unallowable. The costs are unallowable primarily because the district understated authorized health service fees. The State paid the district $401,043. The amount paid exceeds allowable costs claimed by $396,677.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). 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 website 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/sk

cc: Dawn Lindsay, Ed.D., Superintendent/President
Glendale Community College District
Ron Nakasone, Executive Vice President, Administrative Services
Glendale Community College District
Christine Atalig, Auditor
Fiscal Services Unit
California Community Colleges Chancellor's Office
Ed Hanson, Principal Program Budget Analyst
Education Systems Unit
Department of Finance
Jay Lal, Manager
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State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Glendale 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, 2005, through June 30, 2009.

The district claimed $870,139 for the mandated program. Our audit disclosed that $4,366 is allowable and $865,773 is unallowable. The costs are unallowable primarily because the district understated authorized health service fees. The State paid the district $401,043. The amount paid exceeds allowable costs claimed by $396,677.

Background

Chapter 1, Statutes of 1984, 2nd Extraordinary Session 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. 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 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, 2005, through June 30, 2009.

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, the Glendale Community College District claimed $870,139 for costs of the Health Fee Elimination Program. Our audit disclosed that $4,366 is allowable and $865,773 is unallowable.

For the FY 2005-06 claim, the State made no payment to the district. Our audit disclosed that $4,366 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2006-07, FY 2007-08, and FY 2008-09 claims, the State paid the district $401,043. Our audit disclosed that the claimed costs are unallowable. The State will offset that amount 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 May 2, 2012. Ron Nakasone, Executive Vice President, Administrative Services, responded by letter dated May 23, 2012 (Attachment), agreeing with Findings 1 and 4, and disagreeing with Findings 2 and 3. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the Glendale 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

June 5, 2012

Schedule 1—
Summary of Program Costs
July 1, 2005, through June 30, 2009

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 2005, through June 30, 2006				
Direct costs:				
Salaries	$ 405,518	$ 405,518	$ —	
Benefits	98,474	98,474	—	
Services and supplies	41,550	64,564	23,014	Finding 1
Total direct costs	545,542	568,556	23,014	
Indirect costs	182,483	168,520	(13,963)	Finding 2
Total direct and indirect costs	728,025	737,076	9,051	
Less authorized health service fees	(423,084)	(718,810)	(295,726)	Finding 3
Less offsetting savings/reimbursements	—	(13,900)	(13,900)	Finding 4
Total program costs	$ 304,941	4,366	$ (300,575)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 4,366		
July 1, 2006, through June 30, 2007				
Direct costs:				
Salaries	$ 456,439	$ 456,439	$ —	
Benefits	110,875	110,875	—	
Services and supplies	46,319	69,863	23,544	Finding 1
Total direct costs	613,633	637,177	23,544	
Indirect costs	205,398	188,413	(16,985)	Finding 2
Total direct and indirect costs	819,031	825,590	6,559	
Less authorized health service fees	(601,371)	(929,679)	(328,308)	Finding 3
Less offsetting savings/reimbursements	—	(4,928)	(4,928)	Finding 4
Subtotal	217,660	(109,017)	(326,677)	
Audit adjustments that exceed costs claimed	—	109,017	109,017	
Total program costs	$ 217,660	—	$ (217,660)	
Less amount paid by the State		(86,931)		
Allowable costs claimed in excess of (less than) amount paid		$ (86,931)		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 2007, through June 30, 2008				
Direct costs:				
Salaries	$ 468,981	$ 468,981	$ —	
Benefits	138,420	138,420	—	
Services and supplies	51,424	55,106	3,682	Finding 1
Total direct costs	658,825	662,507	3,682	
Indirect costs	263,005	208,824	(54,181)	Finding 2
Total direct and indirect costs	921,830	871,331	(50,499)	
Less authorized health service fees	(702,630)	(1,023,804)	(321,174)	Finding 3
Less offsetting savings/reimbursements	(654)	(654)	—	
Subtotal	218,546	(153,127)	(371,673)	
Audit adjustments that exceed costs claimed	—	153,127	153,127	
Total program costs	$ 218,546	—	$ (218,546)	
Less amount paid by the State		(185,120)		
Allowable costs claimed in excess of (less than) amount paid		$ (185,120)		
July 1, 2008, through June 30, 2009				
Direct costs:				
Salaries	$ 485,876	$ 485,876	$ —	
Benefits	148,696	148,696	—	
Services and supplies	54,863	63,249	8,386	Finding 1
Total direct costs	689,435	697,821	8,386	
Indirect costs	210,384	233,142	22,758	Finding 2
Total direct and indirect costs	899,819	930,963	31,144	
Less authorized health service fees	(770,827)	(1,155,379)	(384,552)	Finding 3
Subtotal	128,992	(224,416)	(353,408)	
Audit adjustments that exceed costs claimed	—	224,416	224,416	
Total program costs	$ 128,992	—	$ (128,992)	
Less amount paid by the State		(128,992)		
Allowable costs claimed in excess of (less than) amount paid		$ (128,992)		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
Summary: July 1, 2005, through June 30, 2009				
Direct costs:				
Salaries	$ 1,816,814	$ 1,816,814	$ —	
Benefits	496,465	496,465	—	
Services and supplies	194,156	252,782	58,626	
Total direct costs	2,507,435	2,566,061	58,626	
Indirect costs	861,270	798,899	(62,371)	
Total direct and indirect costs	3,368,705	3,364,960	(3,745)	
Less authorized health service fees	(2,497,912)	(3,827,672)	(1,329,760)	
Less offsetting savings/reimbursements	(654)	(19,482)	(18,828)	
Subtotal	870,139	(482,194)	(1,352,333)	
Audit adjustments that exceed costs claimed	—	486,560	486,560	
Total program costs	$ 870,139	4,366	$ (865,773)	
Less amount paid by the State		(401,043)		
Allowable costs claimed in excess of (less than) amount paid		$ (396,677)		

[1] See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1—
Understated services and supplies

The district understated allowable services and supplies by $58,626. The following issues caused the understated costs:

- The district understated allowable student insurance costs totaling $34,883. The district provided documentation from its insurance company that identified mandate-related and non-mandate-related costs for each fiscal year.

- The district incorrectly posted miscellaneous revenues to its health services supplies expense account. The miscellaneous revenues totaled $18,828 for fiscal year (FY) 2005-06 and FY 2006-07. These miscellaneous revenues were attributable to additional fees that the district charged for various health services that it provided. We reclassified these amounts as understated offsetting savings/ reimbursements (see Finding 4).

  We did not reclassify the incorrectly posted miscellaneous revenues for FY 2007-08 and FY 2008-09. For those fiscal years, allowable indirect costs are based on indirect cost rates that were applied to direct salaries and benefits only. Therefore, the incorrectly posted miscellaneous revenues do not affect total allowable costs.

- The district incorrectly reduced its tuberculosis (TB) testing costs claimed by $4,915 to account for internal fund transfers between the district office and the health services account.

The following table summarizes the audit adjustment:

	Fiscal Year				
	2005-06	2006-07	2007-08	2008-09	Total
Student insurance	$ 7,974	$ 17,711	$ 2,097	$ 7,101	$ 34,883
Miscellaneous revenues	13,900	4,928	—	—	18,828
TB test transfers	1,140	905	1,585	1,285	4,915
Audit adjustment	$ 23,014	$ 23,544	$ 3,682	$ 8,386	$ 58,626

The program's parameters and guidelines require districts to claim actual costs. The parameters and guidelines state:

> Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. . . .

Recommendation

We recommend that the district claim all mandate-related costs that its accounting records support.

District's Response

The district agreed with the finding and recommendation.

FINDING 2—
Overstated indirect costs

The district overstated allowable indirect costs by $62,371.

The district claimed indirect costs based on federally approved rates of 45.00% for FY 2005-06 and FY 2006-07, and 43.30% for FY 2007-08 and FY 2008-09.

For the audit period, the parameters and guidelines and the State Controller's Office's (SCO's) claiming instructions allow districts to use only the SCO's FAM-29C methodology for indirect cost rates. We calculated the allowable indirect cost rates based on the FAM-29C methodology.

For FY 2005-06 and FY 2006-07, we calculated the indirect cost rates using a base of total direct costs. To calculate allowable indirect costs, we applied the allowable rates to total allowable direct costs.

For FY 2007-08 and FY 2008-09, we calculated the indirect costs rates using a base of total salaries and benefits only. To calculate allowable indirect costs, we applied the allowable rates to total allowable salaries and benefits.

The following table summarizes the audit adjustment:

	Fiscal Year				
	2005-06	2006-07	2007-08	2008-09	Total
Allowable direct costs	$ 568,556	$ 637,177	$ —	$ —	
Allowable salaries and benefits	—	—	607,401	634,572	
Allowable indirect cost rate	× 29.64%	× 29.57%	× 34.38%	× 36.74%	
Allowable indirect costs	168,520	188,413	208,824	233,142	
Indirect costs claimed	(182,483)	(205,398)	(263,005)	(210,384)	
Audit adjustment	$ (13,963)	$ (16,985)	$ (54,181)	$ 22,758	$ (62,371)

The parameters and guidelines state:

> Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions.

For all fiscal years, the 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 P's & G'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.

The claiming instructions specify that the FAM-29C methodology uses a direct cost base of total direct costs for FY 2005-06 and FY 2006-07, and salaries and benefits only for FY 2007-08 forward.

Recommendation

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.

District's Response

> The district is not in agreement with this finding and recommendation. . . . The use of the federally approved rate is randomly included in the various claims' parameters and guidelines. Some claims allow it and others do not. The State Controller's Office could not provide any reasoning on when the federally approved rate is allowed.
>
> The Mandated Cost manual states that the purpose of developing FAM-29C was to calculate an equitable indirect rate consistent with OMB Circular A-21. . . . The FAM-29C methodology makes generalizations that simplify the calculation, but results in a less equitable rate, the exact opposite goal of creating the methodology. For example, this claim is based on costs of the health center. Yet the costs of the administrative department, the Vice President of Student Services, that oversees the Health Center are classified as direct costs.
>
> The claiming instructions state that the federally approved method should not be used when it produces results that appear inequitable. However, since the Controller's Office cannot provide any reasoning on why the federally approved rate is allowed on some claims and not others and the FAM-29C methodology is based on generalizations that result in a rate that is less equitable for this claim than the federally approved method, we feel that the federally approved rate should be allowed.

SCO's Comment

The finding and recommendation are unchanged. The district discusses indirect cost rate methodologies permitted by various mandated cost programs. Indirect cost rate methodologies allowed by other mandated cost programs are irrelevant. The Health Fee Elimination Program's parameters and guidelines direct districts to claim indirect costs in accordance with the SCO's claiming instructions. The claiming instructions require districts to claim indirect costs using the SCO's FAM-29C methodology.

The district believes that the FAM-29C methodology results in an indirect cost rate that is less equitable for Health Fee Elimination Program claims. However, the district did not provide any evidence to support its statement. The FAM-29C methodology is specified in the SCO's claiming instructions. Title 2, *California Code of Regulations* (CCR), section 1186, allows districts to request that the Commission on State Mandates (CSM) review the SCO's claiming instructions. Neither this district nor any other district requested that the CSM review the SCO's claiming instructions. The district may not now request a review of the claiming instructions applicable to the audit period. Title 2, CCR, section 1186, subdivision (j)(2), states, "A request for review filed after the initial claiming deadline must be submitted on or before January 15 following a fiscal year in order to establish eligibility for reimbursement for that fiscal year."

FINDING 3—Understated authorized health service fees

The district understated authorized health service fees by $1,329,760. The district understated these fees primarily because it voluntarily waived the health service fee for non-credit students.

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.

For the period July 1, 2005, 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 health fee rates authorized by Education Code section 76355, subdivision (a). The following table summarizes the authorized health fee rates:

	Authorized Health Fee Rate	
Fiscal Year	Fall and Spring Semesters	Summer Session and Winter Intersession
2005-06	$14	$11
2006-07	$15	$12
2007-08	$16	$13
2008-09	$17	$14

For each school term, the district reported student enrollment and Board of Governors Grant (BOGG) recipient data to the CCCCO. Based on the student data that the district reported, the CCCCO identified enrollment and BOGG recipient data from its management information system (MIS). The CCCCO identified the district's enrollment based on CCCCO's MIS data element STD7, codes A through G. The CCCCO eliminated any duplicate students based on their Social Security numbers. From the district enrollment, the CCCCO identified the number of BOGG recipients based on MIS data element SF21, all codes with first letter of B or F. The CCCCO data element and code definitions are available at http://www.cccco.edu/SystemOffice/Divisions/TechResearchInfo/MIS/DED/tabid/266/Default.aspx. The district did not identify any students who 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:

	Period				
	Summer Session	Fall Semester	Winter Intersession	Spring Semester	Total
Fiscal Year 2005-06:					
Number of enrolled students	11,465	21,929	10,473	21,829	
Less number of BOGG recipients	(3,414)	(6,969)	—	—	
Subtotal	8,051	14,960	10,473	21,829	
Authorized health fee rate	× $(11)	× $(14)	× $(11)	× $(14)	
Authorized health service fees	$ (88,561)	$ (209,440)	$ (115,203)	$ (305,606)	$ (718,810)
Less authorized health service fees claimed					423,084
Audit adjustment, FY 2005-06					(295,726)
Fiscal Year 2006-07:					
Number of enrolled students	11,815	22,256	10,397	21,953	
Authorized health fee rate	× $(12)	× $(15)	× $(12)	× $(15)	
Authorized health service fees	$ (141,780)	$ (333,840)	$ (124,764)	$ (329,295)	(929,679)
Less authorized health service fees claimed					601,371
Audit adjustment, FY 2006-07					(328,308)
Fiscal Year 2007-08:					
Number of enrolled students	12,063	22,384	11,133	22,757	
Authorized health fee rate	× $(13)	× $(16)	× $(13)	× $(16)	
Authorized health service fees	$ (156,819)	$ (358,144)	$ (144,729)	$ (364,112)	(1,023,804)
Less authorized health service fees claimed					702,630
Audit adjustment, FY 2007-08					(321,174)
Fiscal Year 2008-09:					
Number of enrolled students	13,385	23,634	11,404	23,915	
Authorized health fee rate	× $(14)	× $(17)	× $(14)	× $(17)	
Authorized health service fees	$ (187,390)	$ (401,778)	$ (159,656)	$ (406,555)	(1,155,379)
Less authorized health service fees claimed					770,827
Audit adjustment, FY 2008-09					(384,552)
Total audit adjustment					$ (1,329,760)

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 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).
- Waive the health service fee only for those students specified in Education Code section 76355, subdivision (c).

District's Response

The district disagreed with the audit finding. The district believes that Education Code section 76380, subdivision (a), conflicts with Education Code section 76355. The district believes that Education Code section 76380, subdivision (a), prohibits the district from charging a health services fee to non-credit students.

SCO's Comment

The finding and recommendation are unchanged. We disagree with the district's interpretation of Education Code sections 76355 and 76380, subdivision (a).

The Education Code sections do not conflict. Education Code section 76380, subdivision (a), relates to specific *classes* and the exemption applies to enrollment, tuition, and any class-specific fees (such as lab fees). Education Code section 76355 relates to *students* and the only health services fee exemptions provided are those identified in Education Code section 76355, subdivision (c). The California Community Colleges Chancellor's Office agreed with this interpretation.

FINDING 4—
Understated offsetting savings/reimbursements

The district understated offsetting savings/reimbursements by $18,828. The district incorrectly commingled miscellaneous revenue in its health services supplies expense account (see Finding 1). The miscellaneous revenue was attributable to separate fees that the district charged students for various health services that it provided.

The following table summarizes the audit adjustment:

	Fiscal Year		
	2005-06	2006-07	Total
Offsetting savings/reimbursements audit adjustment	$ (13,900)	$ (4,928)	$ (18,828)

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

We recommend that the district properly report all miscellaneous revenue received as offsetting savings/reimbursements on its mandated cost claims.

District's Response

The district agreed with the finding and recommendation.

Attachment—
District's Response to
Draft Audit Report

Dr. Dawn Lindsay
Superintendent/President

BOARD OF TRUSTEES
Anita Quinonez Gabrielian
Dr. Armine G. Hacopian
Dr. Vahé Peroomian
Ann H. Ransford
Anthony P. Tartaglia

May 23, 2012

Mr. Jim L. Spano
Chief, Mandated Cost Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 942850

RE: Health Fee Elimination Audit Report for Fiscal Years 2005-06 through 2008-09

Dear Mr. Spano:

We have received the Health Fee Elimination Draft Audit Report for the 2005-06 through 2008-09 fiscal years. Following are the district's responses to the audit's findings and recommendations:

Finding 1 – Understated Services and Supplies: The district is in agreement with this finding and recommendation.

Finding 2 – Overstated Indirect Cost: The district is not in agreement with this finding and recommendation. The Mandated Cost manual allows claiming indirect costs using the State Controller's methodology (FAM-29C). In addition, a federally approved rate may be used but only if the parameters and guidelines specific ally allow it. The use of the federally approved rate is randomly included in the various claims' parameter and guidelines. Some claims allow it and others do not. The State Controller's Office could not provide any reasoning on when the federally approved rate is allowed.

The Mandated Cost manual states that the purpose of developing FAM-29C was to calculate an equitable indirect rate consistent with OMB Circular A-21 to allocated administrative support to personnel who perform mandate cost activities. The FAM-29C methodology makes generalizations that simplify the calculation, but results in a less equitable rate, the exact opposite goal of creating the methodology. For example, this claim is based on costs of the health center. Yet the costs of the administrative department, the Vice President of Student Services, that oversees the Health Center are classified as direct costs.

The claiming instructions state that the federally approved method should not be used when it produces results that appear inequitable. However, since the Controller's Office cannot provide any reasoning on why the federally approved rate is allowed on some claims and not others and the FAM-29C methodology is based on generalizations that result in a rate that is less equitable for this claim than the federally approved method, we feel that the federally approved rate should be allowed.

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Finding 3 – Understated Authorized Health Service Fee: The district is not in agreement with this finding and recommendation. The audit adjustment results from the district not charging the health fee to its noncredit students. The Education Code is not consistent on whether noncredit students are subject to the health fee. The State Controller's Office reference Education Code Section 76355. But Education Code Section 76380 subdivision (a) states:

> "An adult enrolled in a noncredit course shall not be required by the governing board of the district maintaining the class to pay nonresident tuition or any fee or charge of any kind for a class in English and citizenship for foreigners, a class in an elementary subject, a class designated by the governing board as a class for which high school credit is granted when the class is taken by a person who does not hold a high school diploma, or any class offered by a community college district pursuant to Section 8531, 8532, 8533, or 8534."

The noncredit classes taught at our Garfield Campus are consistent with this section of the Education Code. As a result, any fee or charge is not allowed.

The policy of not charging the health fee to our noncredit students has always been followed at the district. This practice has never been a problem with the State Controller's Office until this audit. Our Health Fee Elimination claims were previously audited for fiscal years 1999-00 through 2004-05 with no finding or audit adjustment for this practice. In questioning the State Controller's Office on why this practice is no longer allowed, they could not provide any change in the Education Code or the mandate's parameters and guidelines that would justify this change in the interpretation for authorized health service fees.

Finding 4 – Understated offsetting Savings/Reimbursements: The district is in agreement with this finding and recommendation.

Please feel free to contact me if you have any questions on the above information.

Sincerely,

Ron Nak

Ron Nakasone
Executive Vice President, Administrative Services

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Sacramento, CA 94250-5874

http://www.sco.ca.gov

S10-MCC-043