JOHN CHIANG
California State Controller

July 9, 2013

Edwin Y. Eng, Vice Chancellor, Finance and Administration
State Center Community College District
1525 East Weldon Avenue
Fresno, CA 93704-6398

Dear Mr. Eng:

The State Controller's Office reviewed the costs claimed by the State Center Community College District for 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, 2011, through June 30, 2012. Our review was limited to validating the indirect costs and authorized health service fees that the district reported.

The district claimed $472,973 for the mandated program. Our review found that $443,732 is allowable and $29,241 is unallowable. The costs are unallowable because the district overstated indirect costs, as described in the attached Summary of Program Costs and Finding and Recommendation.

If you disagree with the review finding, 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, CPA
Chief, Division of Audits

JVB/kw

Attachments

RE: S13–MCC–953

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cc: Mollie Quasebarth, Principal Program Budget Analyst
Education Systems Unit, California Department of Finance
Mario Rodriguez, Finance Budget Analyst
Education Systems Unit, California Department of Finance
Christine Atalig, Specialist, College Finance and Facilities Planning
California Community Colleges Chancellor's Office
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

# Attachment 1—
# Summary of Program Costs
# July 1, 2011 through June 30, 2012

| Cost Elements | Actual Costs Claimed | Allowable per Review | Review Adjustment [1] |
|---|---|---|---|
| July 1, 2011, through June 30, 2012 | | | |
| Direct costs: | | | |
| Salaries and benefits | $ 1,169,632 | $ 1,169,632 | $ — |
| Services and supplies | 187,023 | 187,023 | — |
| Total direct costs | 1,356,655 | 1,356,655 | — |
| Indirect costs | 395,453 | 366,212 | (29,241) |
| Total direct and indirect costs | 1,752,108 | 1,722,867 | (29,241) |
| Less authorized health service fees | (1,277,430) | (1,277,430) | — |
| Less offsetting savings/reimbursements | (1,705) | (1,705) | — |
| Total program costs | $ 472,973 | 443,732 | $ (29,241) |
| Less amount paid by the State | | — | |
| Allowable costs claimed in excess of (less than) amount paid | | $ 443,732 | |

[1] See Attachment 2, Finding and Recommendation.

# Attachment 2—
# Finding and Recommendation
# July 1, 2011, through June 30, 2012

**FINDING—**
**Overstated indirect costs**

The district overstated indirect costs by $29,241. The district's indirect cost rate calculation and claimed costs did not comply with the parameters and guidelines and the SCO's claiming instructions for the following reasons:

- The district calculated its fiscal year (FY) 2011-12 indirect cost rate based on actual costs from FY 2010-11 rather than FY 2011-12.

- The district incorrectly identified Community Relations costs as indirect costs.

We calculated the allowable indirect cost rate based on actual costs that the district identified in its FY 2011-12 CCFS-311 report and FY 2011-12 independent audit report. The following table summarizes the allowable indirect cost rate calculation:

| Activity | Indirect - Salaries, Benefits, and Operating Expenses | Direct - Salaries and Benefits Only |
|---|---|---|
| Instructional activities | $ - | $ 71,286,447 |
| Instructional administration and governance | - | 9,464,539 |
| Instructional support services | - | 6,170,695 |
| Admission and records | - | 2,871,556 |
| Student counseling and guidance | - | 8,097,175 |
| Other student services | - | 13,298,361 |
| Operation and maintenance of plant | 11,419,274 | - |
| Planning, policy making, and coordination | 4,466,347 | - |
| General institutional support services: | | |
| Community relations | - | 1,545,226 |
| Fiscal operations | 2,946,023 | - |
| Human resources management | 1,651,549 | - |
| Non-instructional staff retirees' benefits and retirement incentives | 466,273 | - |
| Staff development | 231,056 | - |
| Staff diversity | 10,883 | - |
| Logistical services | 5,340,281 | - |
| Management information systems | 2,343,604 | - |
| Other general institutional support services | - | - |
| Community services and economic development | - | 1,743,282 |
| Ancillary services | - | 1,597,314 |
| Auxiliary operations | - | 680,320 |
| Depreciation | 7,682,548 | - |
| Totals | $ 36,557,838 | $ 116,754,915 |
| | (A) | (B) |
| Allowable Indirect Cost Rate ((A) ÷ (B)) | 31.31% | |

The following table summarizes the review adjustment:

| | | Fiscal Year 2011-12 |
|---|---|---|
| Salaries and benefits claimed | $ | 1,169,632 |
| Allowable indirect cost rate | x | 31.31% |
| Allowable indirect costs | | 366,212 |
| Less indirect costs claimed | | (395,453) |
| Review adjustment | $ | (29,241) |

The parameters and guidelines state, "Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions."

The SCO's claiming instructions state, "A CCD [community college district] may claim indirect costs using the Controller's methodology (FAM-29C). . . ."

Recommendation

We recommend that the district claim indirect costs using indirect cost rates calculated in accordance with the SCO's FAM-29C methodology specified in the SCO's claiming instructions.