



RECEIVED
October 15, 2014
Commission on
State Mandates

JOHN CHIANG
California State Controller

October 14, 2014

Heather Halsey
Executive Director
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814

Re: Request for Additional Information
Incorrect Reduction Claim (IRC)
Health Fee Elimination, 05-4206-I-10
Education Code Section 76355
Statutes 1984, Chapter 1; (1983-1984 Ex. Sess.), Statutes 1987, Chapter 1118
Fiscal Years: 1999-2000, 2000-01, and 2001-2002
Foothill-De Anza Community College District, Claimant

Dear Ms. Halsey:

The State Controller's Office is transmitting our response to the Commission's October 3, 2014 Request for Additional Information on the above-entitled IRC.

If you have any questions, please contact me by telephone at (916) 323-5849.

Sincerely,

JIM L. SPANO, Chief
Mandated Cost Audits Bureau
Division of Audits

JLS/sk

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**STATE CONTROLLER’S OFFICE RESPONSE TO
TO THE COMMISSION ON STATE MANDATES
REQUEST FOR ADDITIONAL INFORMATION
DATED OCTOBER 3, 2014**

Incorrect Reduction Claim (IRC)
Health Fee Elimination, 05-4206-I-10
Education Code Section 76355
Statutes 1984, Chapter 1; (1983-1984 Ex. Sess.), Statutes 1987, Chapter 1118
Fiscal Years: 1999-2000, 2000-01, and 2001-2002
Foothill-De Anza Community College District, Claimant

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Tab 1

1 **OFFICE OF THE STATE CONTROLLER**
300 Capitol Mall, Suite 1850
2 Sacramento, CA 94250
3 Telephone No.: (916) 445-6854

4
5 **BEFORE THE**
6 **COMMISSION ON STATE MANDATES**
7 **STATE OF CALIFORNIA**

8
9 **INCORRECT REDUCTION CLAIM ON:**

No.: CSM 05-4206-I-10

10 *Health Fee Elimination Program*

AFFIDAVIT OF BUREAU CHIEF

11 Education Code section 76355
12 Statutes 1984, Chapter 1
(1983-1984 2nd Ex. Sess.)
13 Statutes 1987, Chapter 1118

14 Foothill-De Anza Community College District,
15 Claimant

16 I, Jim L. Spano, make the following declarations:

- 17 1) I am an employee of the State Controller's Office (SCO) and am over the age of 18
18 years.
- 19 2) I am currently employed as a bureau chief, and have been so since April 21, 2000.
20 Before that, I was employed as an audit manager for two years and three months.
- 21 3) I am a California Certified Public Accountant.
- 22 4) I reviewed the work performed by the SCO auditor.
- 23 5) Any attached copies of records are true copies of records, as provided by Foothill-De
24 Anza Community College District or retained at our place of business.

- 1 6) The records include claims for reimbursement, and attached supporting documentation,
2 explanatory letters, or other documents relating to the above-entitled Incorrect Reduction Claim.
3 7) A field audit was performed of claims filed by Foothill-De Anza Community College District for
4 fiscal year (FY) 1999-2000, FY 2000-01, and FY 2001-02.

5 I do declare that the above declarations are made under penalty of perjury and are true and
6 correct to the best of my knowledge, and that such knowledge is based on personal
7 observation, information, or belief.

8 Date: October 14, 2014

9 OFFICE OF THE STATE CONTROLLER

10
11 By: 
12 _____

13 Jim L. Spano, Chief
14 Mandated Cost Audits Bureau
15 Division of Audits
16 State Controller's Office
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Tab 2

**STATE CONTROLLER'S OFFICE RESPONSE TO
TO THE COMMISSION ON STATE MANDATES
REQUEST FOR ADDITIONAL INFORMATION
DATED OCTOBER 3, 2014**

Incorrect Reduction Claim (IRC)
Health Fee Elimination, 05-4206-I-10
Education Code Section 76355
Statutes 1984, Chapter 1; (1983-1984 Ex. Sess.), Statutes 1987, Chapter 1118
Fiscal Years: 1999-2000, 2000-01, and 2001-2002
Foothill-De Anza Community College District, Claimant

SUMMARY

The following is the State Controller's Office (SCO) response to the Commission on State Mandates' (CSM) staff request for additional information regarding Finding 3 for the above-entitled matter.

I. Request for Additional Information

Commission's Request

Commission staff is requesting the record for the *Health Fee Elimination* incorrect reduction claim filed by the Foothill-De Anza County Community College District, and requests additional information regarding Finding 3, alleged overstated indirect cost rates.

Specifically, what evidence in the record led to the finding that the revised Indirect Cost Rate Proposals for fiscal years 1999-2000, 2000-01, and 2001-02 prepared by the claimant using the Form FAM-29C was incorrectly calculated? And more generally, where might Commission staff find the rule to apply to determine what is properly allocated as direct costs or indirect costs under the FAM-29C?

Commission staff requests that the Controller provide a response on or before **October 20, 2014**.

SCO's Comments

Indirect Cost Rate Calculations

Our audit report identifies unallowable costs totaling \$442,402 for indirect costs (\$129,536 for FY 1999-2000, \$134,607 for FY 2000-01, and \$178,259 for FY 2001-02). The audit finding represents the difference between the claimed rate of 36.48% and the district/auditor recalculated rates.

The claimed rates were based on an Indirect Cost Rate Proposal (ICRP) prepared by an outside consultant who used the Office of Management and Budget Circular A-21 methodology and actual costs from FY 1998-99 only. However, no federal approval of the district's A-21 rate was obtained, as required by the SCO's claiming instructions. Therefore, the rate was unallowable as claimed.

During the course of the audit, the district prepared revised ICRPs for all three years of the audit period on schedules titled "FAM 29C Indirect Cost Rate for Community Colleges" using the FAM-29C methodology described in the SCO's claiming instructions. The district calculated indirect cost rates of 15.2% for FY 1999-2000, 14.0% for FY 2000-01, and 15.5% for FY 2001-02.

For all three ICRP schedules provided by the district, we noted that the district overstated direct costs for the activity labeled "Operation and Maintenance" because amounts identified as indirect costs were not deducted from total costs on the forms. For FY 1999-2000 and FY 2000-01, the district did not post some amounts from the activity labeled as "Ancillary Services" in the direct cost column. After adjusting for these items, we initially determined audited indirect cost rates of 15.23% for FY 1999-2000, 14.06% for FY 2000-01, and 15.55% for FY 2001-02.

Just prior to issuing the draft audit report, we noted that the line item labeled "Transfers, Student Aid and Other" (Account #7300) was incorrectly included as direct costs for FY 2000-01 and FY 2001-02. We deducted these amounts from the indirect cost calculation for those two years and revised the indirect rates to be 15.72% for FY 2000-01 and 17.3% for FY 2001-02. Based on these adjustments to indirect cost rates, the draft audit report identified adjustments totaling \$434,393 within Finding 3 of the report. In its response to the draft report, dated January 21, 2004, the district did not contest this finding. We revised the audit finding amount in the final audit report to \$442,402 based on increases to allowable costs for FY 1999-2000 and FY 2001-02.

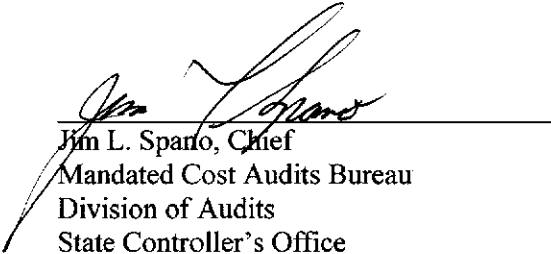
Documentation supporting our audit finding is attached (**Tab 3**).

Commission staff also requested the source of information to properly allocate direct costs or indirect costs under the FAM-29C. The FAM-29C methodology was provided in the SCO's Mandated Cost Manual for School Districts during each year of the audit period. The relevant excerpts from the manual are attached (**Tab 4, Tab 5, and Tab 6**).

C. CERTIFICATION

I hereby certify by my signature below that the statements made in this document are true and correct of my own knowledge, or, as to all other matters, I believe them to be true and correct based upon information and belief.

Executed on October 14, 2014, at Sacramento, California, by:



Jim L. Spanio, Chief
Mandated Cost Audits Bureau
Division of Audits
State Controller's Office

Tab 3

FAM 29C Indirect Cost Rate for Community Colleges
 Foothill-De Anza Community College District
 1999-2000

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Activity	EDP	Total	Deduct Capital Adjustments	Total	Indirect	Direct
Subtotal Instruction	599✓	70,085,198	(385,521)	69,699,677		69,699,677
Instructional Administration	6000			-		
Academic Administration	6010✓	7,929,042	(245,434)	7,683,608		7,683,608
Course Curriculum & Develop.	6020✓	684,322	(6,165)	678,157		678,157
Academic/Faculty Senate	6030			-		-
Other Instruct. Admin & Instruc	6090			-		-
Instructional Support Service	6100			-		
Learning Center	6110✓	722,168	(40,758)	681,410		681,410
Library	6120✓	2,802,939	(13,171)	2,789,768		2,789,768
Media	6130✓	1,002,266	(33,439)	968,827		968,827
Museums and Galleries	6140			-		-
Academic Information Systems	6150			-		-
Other Instructional Support Ser	6190			-		-
Admissions and Records	6200✓	2,715,032	(64,585)	2,650,447		2,650,447
Counseling and Guidance	6300✓	3,900,524	(7,928)	3,892,596✓		3,892,596
Other Student Services	6400			-		-
Disabled Students Program & S	6420✓	23,910		23,910		23,910
Extended Opportunity Progrms.	6430✓	874,402	(3,959)	870,443		870,443
Health Services	6440✓	888,669	3,591	892,260		892,260
Student Personnel Admin.	6450✓	432,898	(24,281)	408,617		408,617
Financial Aid Administration	6460✓	739,641	(3,915)	735,726		735,726
Job Placement Services	6470			-		-
Veterans Services	6480			-		-
Other Student Services	6490			-		-
Operation & Maintenance	6500			-		-
Building Maintenance	6510✓	4,292,389	(711,400)	3,580,989	250,669 ^①	3,330,320
Custodial Services	6530✓	2,810,090	(10,037)	2,800,053	196,004	2,800,053 2,604,049
Grounds Maintenance	6550✓	1,465,194	(5,513)	1,459,681	102,178	1,459,681 1,357,503
Utilities	6570			-		-
Other	6590✓	3,222,369	(255,377)	2,966,992	207,689	2,966,992 2,759,303
Planning and Policy Making	6600✓	4,371,199	(265,632)	4,105,567	4,105,567	
General Inst. Support Services	6700			-		
Community Relations	6710✓	521,859	(23,442)	498,417		498,417
Fiscal Operations	6720✓	1,325,919	(72,195)	1,253,724	1,253,724	
Human Resources Management	6730✓	3,344,217	(46,635)	3,297,582	3,297,582	
Noninstr. Staff Benefit & Incent	6740			-		-
Staff Development	6750✓	699,251	(10,374)	688,877		688,877
Staff Diversity	6760✓	118,496		118,496		118,496
Logistical Services	6770✓	5,560,872	(143,500)	5,417,372	5,417,372	
Management Information Servic	6780✓	4,115,728	(191,363)	3,924,365	3,924,365	
Other General Institutional Supp	6790✓	20,637		20,637		20,637
Community Services	6800			-		
Community Recreation	6810✓	1,060,911		1,060,911		1,060,911
Community Service Classes	6820✓	2,181,577	(16,204)	2,165,373		2,165,373
Community Use of Facilities	6830✓	422,706	(33,740)	388,966		388,966
Economic Development	6840			-		-
Other Community Svcs. & Econ	6890			-		-
Ancillary Services	6900			-		
Bookstores	6910			-		
Child Development Center	6920			-		
Farm Operations	6930			-		
Food Services	6940			-		
Parking	6950✓	957,312	(26,193)	931,119		931,119

① = 7% of total expenses for line item
 ✓ = costs allocated to appropriate category
 - = cost not allocated - allocated to another

Activity	EDP	Total	Capital Adjustments	Total	Indirect	Direct
Student Activities	6960	1,127,884	(9,055)	1,118,829		1,118,829
Student Housing	6970					
Other	6990	11,522	(2,083)	9,439		9,439
Auxiliary Operations	7000					
Contract Education	7010	16,734,033	(2,612,664)	14,121,369		14,121,369
Other Auxillary Operations	7090					
Physical Property Acquisitions	7100					
Long-Term Debt and Other Financial	7200					
Transfers, Student Aid and Other	7300					

Total ✓ 147,165,176 ✓ (5,260,972) ✓ 141,904,204 ✓ 18,755,150 ~~123,845,486~~
 Indirect Cost Rate: (Total Indirect Cost/Total Direct Cost) 15.2% 15.23%

~~123,845,486~~
 15.2% 15.23%
~~23 1/2~~
 123,149,054

FAM 29C Indirect Cost Rate for Community Colleges
 Foothill-De Anza Community College District
 2000-2001

Activity	EDP	Total	Deduct Capital Adjustments	Total	Indirect	Direct
Subtotal Instruction	599	77,948,140	(630,117)	77,318,023		77,318,023
Instructional Administration	6000					
Academic Administration	6010	9,446,073	(315,913)	9,130,160		9,130,160
Course Curriculum & Develop.	6020	53,681		53,681		53,681
Academic/Faculty Senate	6030	108,178		108,178		108,178
Other Instruct. Admin & Instruc	6090	25,830		25,830		25,830
Instructional Support Service	6100					
Learning Center	6110	1,151,942	(123,739)	1,028,203		1,028,203
Library	6120	2,876,536	(39,718)	2,836,818		2,836,818
Media	6130	169,975	(102,798)	67,177		67,177
Museums and Galleries	6140	77,894		77,894		77,894
Academic Information Systems	6150	217,710	(65,970)	151,740		151,740
Other Instructional Support Ser	6190	104,693		104,693		104,693
Admissions and Records	6200	2,529,626	(24,542)	2,505,084		2,505,084
Counseling and Guidance	6300	5,519,438	(97,667)	5,421,771		5,421,771
Other Student Services	6400					
Disabled Students Program & S	6420	728,509	(116,578)	611,931		611,931
Extended Opportunity Progrms.	6430	1,544,138	(37,479)	1,506,659		1,506,659
Health Services	6440	1,013,176	(13,241)	999,935		999,935
Student Personnel Admin.	6450					
Financial Aid Administration	6460	858,356	(23,036)	835,320		835,320
Job Placement Services	6470	11,777		11,777		11,777
Veterans Services	6480					
Other Student Services	6490	512,805		512,805		512,805
Operation & Maintenance	6500					
Building Maintenance	6510	5,206,664	(1,418,185)	3,788,479	265,194	3,523,285
Custodial Services	6530	2,848,565	(6,884)	2,841,681	198,918	2,841,681 2,642,763
Grounds Maintenance	6550	1,489,991	(15,504)	1,474,487	103,214	1,474,487 1,371,273
Utilities	6570	2,172,354		2,172,354	152,065	2,172,354 2,020,289
Other	6590	1,952,629	(207,779)	1,744,850	122,140	1,744,850 1,622,710
Planning and Policy Making	6600	4,659,623	(113,833)	4,545,790	4,545,790	
General Inst. Support Services	6700					
Community Relations	6710	3,046,185	(951,223)	2,094,962		2,094,962
Fiscal Operations	6720	1,768,584	(137,437)	1,631,147	1,631,147	
Human Resources Management	6730	3,740,170	(40,789)	3,699,381	3,699,381	
Noninstr. Staff Benefit & Incent	6740					
Staff Development	6750	1,067,520	(10,410)	1,057,110		1,057,110
Staff Diversity	6760	340,245	(5,310)	334,935		334,935
Logistical Services	6770	4,614,084	(217,929)	4,396,155	4,396,155	
Management Information Servic	6780	5,954,274	(355,315)	5,598,959	5,598,959	
Other General Institutional Supp	6790	15,365	(10,889)	4,476		4,476
Community Services	6800					
Community Recreation	6810	922,539	(1,868)	920,671		920,671
Community Service Classes	6820	1,424,279	(8,575)	1,415,704		1,415,704
Community Use of Facilities	6830	402,430	(4,159)	398,271		398,271
Economic Development	6840	601,834	(142,854)	458,980		458,980
Other Community Svcs. & Econ	6890					
Ancillary Services	6900					
Bookstores	6910	2,059		2,059		2,059
Child Development Center	6920	2,456		2,456		2,456
Farm Operations	6930					
Food Services	6940	21,672	(2,815)	18,857		18,857
Parking	6950	844,427	(6,649)	837,778		837,778

Activity	EDP	Total	Capital Adjustments	Total	Indirect	Direct
Student Activities	6960	492,998	(2,403)	490,595		490,595
Student Housing	6970			-		
Other	6990	329,813	(2,654)	327,159		327,159
Auxiliary Operations	7000			-		
Contract Education	7010	9,787,349	(916,725)	8,870,624		8,870,624
Other Auxiliary Operations	7090			-		
Physical Property Acquisitions	7100			-		
Long-Term Debt and Other Financials	7200			-		
Transfers, Student Aid and Other	7300	15,628,292		15,628,292		15,628,292
Total		174,234,878	(6,170,987)	168,063,891	20,712,962	147,350,928
Indirect Cost Rate: (Total Indirect Cost/Total Direct Cost)						14.0%

$20,712,963 / 147,350,928 = 14.06\%$
 District calculation is OK.
 (3L/27) OK

FAM 29C Indirect Cost Rate for Community Colleges
 Foothill-De Anza Community College District
 2001-2002

Activity	EDP	Total	Deduct Capital Adjustments	Total	Indirect	Direct
Subtotal Instruction	599	87,351,041	(659,399)	86,691,642		86,691,642
Instructional Administration	6000					
Academic Administration	6010	10,193,120	(354,494)	9,838,626		9,838,626
Course Curriculum & Develop.	6020	375,638	(2,018)	373,620		373,620
Academic/Faculty Senate	6030	169,273		169,273		169,273
Other Instruct. Admin & Instruc	6090	7,849		7,849		7,849
Instructional Support Service	6100					
Learning Center	6110	818,794	(18,932)	799,862		799,862
Library	6120	3,282,542	(33,725)	3,248,817		3,248,817
Media	6130	82,830	(55,179)	27,651		27,651
Museums and Galleries	6140	80,335		80,335		80,335
Academic Information Systems	6150	171,393		171,393		171,393
Other Instructional Support Ser	6190	66,120		66,120		66,120
Admissions and Records	6200	3,437,539	(144,495)	3,293,044		3,293,044
Counseling and Guidance	6300	5,007,312	(43,442)	4,963,870		4,963,870
Other Student Services	6400					
Disabled Students Program & S	6420	1,014,823	(239,776)	775,047		775,047
Extended Opportunity Progrms.	6430	1,704,503	(28,314)	1,676,189		1,676,189
Health Services	6440	1,236,189	(51,233)	1,184,956		1,184,956
Student Personnel Admin.	6450	215,384	(3,354)	212,030		212,030
Financial Aid Administration	6460	921,639	(1,064)	920,575		920,575
Job Placement Services	6470	5,009		5,009		5,009
Veterans Services	6480					
Other Student Services	6490	33,174		33,174		33,174
Operation & Maintenance	6500					
Building Maintenance	6510	5,661,737	(2,157,444)	3,504,293	245,301	3,258,992
Custodial Services	6530	2,443,658	(82)	2,443,576	171,050	2,443,576 2,272,526
Grounds Maintenance	6550	1,434,036		1,434,036	100,383	1,434,036 1,333,653
Utilities	6570	2,651,638		2,651,638	185,615	2,651,638 2,466,023
Other	6590	1,896,411	(213,022)	1,683,389	117,837	1,683,389 1,565,552
Planning and Policy Making	6600	5,464,437	(181,861)	5,282,576	5,282,576	
General Inst. Support Services	6700					
Community Relations	6710	649,880		649,880		649,880
Fiscal Operations	6720	3,288,027	(951,711)	2,336,316	2,336,316	
Human Resources Management	6730	3,044,585	(3,883)	3,040,702	3,040,702	
Noninstr. Staff Benefit & Incent	6740					
Staff Development	6750	687,572	(5,601)	681,971		681,971
Staff Diversity	6760	346,062		346,062		346,062
Logistical Services	6770	6,731,816	(170,444)	6,561,372	6,561,372	
Management Information Servic	6780	7,000,059	(386,777)	6,613,282	6,613,282	
Other General Institutional Supp	6790	485		485		485
Community Services	6800					
Community Recreation	6810	959,590	(172)	959,418		959,418
Community Service Classes	6820	1,363,246	(2,889)	1,360,357		1,360,357
Community Use of Facilities	6830	506,997	(20,480)	486,517		486,517
Economic Development	6840	311,043		311,043		311,043
Other Community Svcs. & Econ	6890					
Ancillary Services	6900					
Bookstores	6910					
Child Development Center	6920					
Farm Operations	6930					
Food Services	6940					
Parking	6950	1,040,969	(23,273)	1,017,696		1,017,696

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Activity	EDP	Total	Capital Adjustments	Total	Indirect	Direct
Student Activities	6960	536,846	(2,515)	534,331		534,331
Student Housing	6970			-		
Other	6990			-		
Auxillary Operations	7000					
Contract Education	7010	9,653,395	1,048,641	10,702,036		10,702,036
Other Auxillary Operations	7090			-		
Physical Property Acquisitions	7100			-		
Long-Term Debt and Other Financ	7200					
Transfers, Student Aid and Other	7300	16,083,511		16,083,511		16,083,511
Total		187,930,507	(4,706,938)	183,223,569	24,654,433	159,144,020
Indirect Cost Rate: (Total Indirect Cost/Total Direct Cost)						15.5%

15.55%
158,569,136
34/2

Date: JK 12/22/03
 Page: 1/8

12
 12-22-03
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Foothill-De Anza Community College District
Legislatively Mandated Health Fee Elimination Program
Second Revision to Indirect Cost Rate Analysis
Audit Period from July 1, 1999 through June 30, 2002
S03-MCC-0030

Purpose To correct errors in the indirect cost rate calculations for FY 2000-01 and FY 2001-02 and subsequently revise Finding 3.

Source FAM-29C Indirect Cost Rate FY 2000-01 (W/P 3L/5-6);
 FAM-29C Indirect Cost Rate FY 2001-02 (W/P 3L/7-8);
 Audit Point Sheet: Unallowable Indirect Cost Rate (APS #3) (W/P 1D/8).

Scope Indirect cost rate for FY 2000-01 and FY 2001-02.

Methodology Prior to mailing the draft report to district, auditors discovered an error in the indirect cost rate calculations for FY 2000-01 and FY 2001-02. Specifically, district erroneously included a cost item—Transfers, Student Aid and Other—in the direct cost base. The amounts were significant; therefore, the indirect cost rates for these fiscal years must be recalculated and the relevant draft report finding will be revised.

Conclusion Indirect cost rates are revised as follows:

	FY 2000-01	FY 2001-02
Total Direct Costs	\$147,350,928	\$158,569,136
Adjustment: Transfers, Student Aid & Other	(15,628,292)	(16,083,511)
^a Revised Direct Costs	<u>\$131,722,636</u>	<u>\$142,485,625</u>
^b Total Indirect Costs	<u>\$ 20,712,963</u>	<u>\$ 24,654,433</u>
^b ^a Revised Indirect Cost Rate (Indirect / Direct)	15.72%	17.30%

The new indirect cost rates calculated above require adjustments to unallowable indirect costs. The table located in Audit Point Sheet #3 (W/P 1D/8) is revised as follows:

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Foothill-De Anza Community College District
 Legislatively Mandated Health Fee Elimination Program
 Second Revision to Indirect Cost Rate Analysis
 Audit Period from July 1, 1999 through June 30, 2002
 S03-MCC-0030

	Fiscal Year			Totals
	1999-2000	2000-01	2001-02	
<ID/2> Unallowable costs, APS #1	\$ (785,663)	\$ (747,579)	\$ (769,982)	
<ID/5> Unallowable costs, APS #2	(71,570)	(291,225)	(111,076)	
Unallowable direct costs	\$ (857,233)	\$ (1,038,804)	\$ (881,058)	
<3F/1> Indirect cost rate claimed	36.48%	36.48%	36.48%	
Subtotal	<u>\$ (312,719)</u>	<u>\$ (378,956)</u>	<u>\$ (321,410)</u>	<u>\$ (1,013,085)</u>
<3F/1> Health expenditures claimed	\$ 1,443,565	\$ 1,687,200	\$ 1,794,459	
Unallowable direct costs	(857,233)	(1,038,804)	(881,058)	
Allowable costs claimed	\$ 586,332	\$ 648,396	\$ 913,401	
Unsupported indirect cost rate <ID/8>	(21.25%)	(20.76%)	(19.18%)	
Subtotal	<u>\$ (124,596)</u>	<u>\$ (134,607)</u>	<u>\$ (175,190)</u>	<u>\$ (434,393)</u>
Total unallowable costs	<u>\$ (437,315)</u>	<u>\$ (513,563)</u>	<u>\$ (496,600)</u>	<u>\$ (1,447,478)</u>

Draft report sections containing Finding 3 (Unallowable Indirect Costs Claimed) and Schedule 1 reflect the above analysis.

Tab 4

B. Indirect Cost

Indirect costs are: (a) Incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Indirect costs can originate in the department performing the mandate or in departments that supply the department performing the mandate with goods, services and facilities. As noted previously, in order for a cost to be allowable, it must be allocable to a particular cost objective. With respect to indirect costs, this requires that the cost be distributed to benefiting cost objectives on bases which produce an equitable result in relation to the benefits derived by the mandate.

(1) Indirect Costs for Schools

School districts and county superintendents of schools may claim indirect costs incurred for mandated costs. For fiscal years prior to 1986-87, school districts and county superintendents of schools may use the Department of Education Form Nos. J41A or J-73A, respectively, applicable to the fiscal year of the claim. The rate, however, must not be applied to items of direct costs claimed in complying with the mandate if those same costs are included in cost centers identified as General Support (i.e., EDP Codes 400, 405, 410 in Column 3). For the 1986-87 and subsequent fiscal years, school districts and county superintendents of schools may use the Annual Program Cost Data Report, Department of Education Form Nos. J-380 or J-580, respectively, applicable to the fiscal year of the claim.

The amount of indirect costs the claimant is eligible to claim is computed by multiplying the rate by direct costs. When applying the rate, multiply the rate by direct costs not included in total support services EDP No.422 of the J-380 or J-580. If there are any exceptions to this general rule for applying the indirect cost rate, they will be found in the individual mandate instructions.

(2) Indirect Cost Rate for Community Colleges

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 State Controller's methodology outlined in the following paragraphs. If the federal rate is used, it must be from the same fiscal year in which the costs were incurred.

The State Controller allows the following methodology for use by community colleges in computing an indirect cost rate for state mandates. The objective of this computation is to determine an equitable rate for use in allocating administrative support to personnel that performed the mandated cost activities claimed by the community college. This methodology assumes that administrative services are provided to all activities of the institution in relation to the direct costs incurred in the performance of those activities. Form FAM-29C has been developed to assist the community college in computing an indirect cost rate for state mandates. Completion of this form consists of three main steps:

- The elimination of unallowable costs from the expenses reported on the financial statements.
- The segregation of the adjusted expenses between those incurred for direct and indirect activities.

Table 4 Indirect Cost Rate for Community Colleges

MANDATED COST INDIRECT COST RATE FOR COMMUNITY COLLEGES				FORM FAM-29C		
(01) Claimant:				(02) Period of Claim:		
(03) Expenditures by Activity				(04) Allowable Costs		
Activity	EDP	Total	Adjustments	Total	Indirect	Direct
Subtotal Instruction	599	\$19,590,357	\$1,339,059	\$18,251,298	\$0	\$18,251,298
Instructional Administration	6000					
Academic Administration	301	2,941,386	105,348	2,836,038	0	2,836,038
Course Curriculum & Develop.	302	21,595	0	21,595	0	21,595
Instructional Support Service	6100					
Learning Center	311	22,737	863	21,874	0	21,874
Library	312	518,220	2,591	515,629	0	515,629
Media	313	522,530	115,710	406,820	0	406,820
Museums and Galleries	314	0	0	0	0	0
Admissions and Records	6200	584,939	12,952	571,987	0	571,987
Counseling and Guidance	6300	1,679,596	54,401	1,625,195	0	1,625,195
Other Student Services	6400					
Financial Aid Administration	321	391,459	20,724	370,735	0	370,735
Health Services	322	0	0	0	0	0
Job Placement Services	323	83,663	0	83,663	0	83,663
Student Personnel Admin.	324	289,926	12,953	276,973	0	276,973
Veterans Services	325	25,427	0	25,427	0	25,427
Other Student Services	329	0	0	0	0	0
Operation & Maintenance	6500					
Building Maintenance	331	1,079,260	44,039	1,035,221	0	1,035,221
Custodial Services	332	1,227,868	33,677	1,193,991	0	1,193,991
Grounds Maintenance	333	596,257	70,807	525,450	0	525,450
Utilities	334	1,236,305	0	1,236,305	0	1,236,305
Other	339	3,454	3,454	0	0	0
Planning and Policy Making	6600	587,817	22,451	565,366	565,366	0
General Inst. Support Services	6700					
Community Relations	341	0	0	0	0	0
Fiscal Operations	342	634,605	17,270	617,335	553,184	(a) 64,151
Subtotal		\$32,037,201	\$1,856,299	\$30,180,902	\$1,118,550	\$29,062,352

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General Inst. Sup. Serv. (cont.)	6700					
Administrative Services	343	\$1,244,248	\$219,331	\$1,024,917	\$933,494	(a) \$91,423
Logistical Services	344	1,650,889	126,935	1,523,954	1,523,954	0
Staff Services	345	0	0	0	0	0
Noninstr. Staff Benft & Incent.	346	10,937	0	10,937	0	10,937
Community Services	6800					
Community Recreation	351	703,858	20,509	683,349	0	683,349
Community Service Classes	352	423,188	24,826	398,362	0	398,362
Community Use of Facilities	353	89,877	10,096	79,781	0	79,781
Ancillary Services	6900					
Bookstores	361	0	0	0	0	0
Child Development Center	362	89,051	1,206	87,845	0	87,845
Farm Operations	363	0	0	0	0	0
Food Services	364	0	0	0	0	0
Parking	365	420,274	6,857	413,417	0	413,417
Student Activities	3663	0	0	0	0	0
Student Housing	67	0	0	0	0	0
Other	379	0	0	0	0	0
Auxiliary Operations	7000					
Auxiliary Classes	381	1,124,557	12,401	1,112,156	0	1,112,156
Other Auxiliary Operations	382	0	0	0	0	0
Physical Property Acquisitions	7100	814,318	814,318	0	0	0
(06) Total		\$38,608,398	\$3,092,778	\$35,515,620	\$3,575,998	\$31,939,622
(07) Indirect Cost Rate: (Total Indirect Cost/Total Direct Cost)				11.1961%		
(08) Notes						
(a) Mandated Cost activities designated as direct costs per claim instructions.						

FY 1999-2000

- The development of a ratio between the total indirect expenses and total direct expenses incurred by the community college.

The computation is based on total expenditures as reported in "California Community Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311)." Expenditures classified by activity are segregated by the function they serve. Each function may include expenses for salaries, fringe benefits, supplies and capital outlay. OMB Circular A-21 requires expenditures for capital outlays to be excluded from the indirect cost rate computation.

Generally, a direct cost is one incurred specifically for one activity, while indirect costs are of a more general nature and are incurred for the benefit of several activities. As previously noted, the objective of this computation is to equitably allocate administrative support costs to personnel that perform mandated cost activities claimed by the college. For the purpose of this computation we have defined indirect costs to be those costs which provide administrative support to personnel who perform mandated cost activities. We have defined direct costs to be those indirect costs that do not provide administrative support to personnel who perform mandated cost activities and those costs that are directly related to instructional activities of the college. Accounts that should be classified as indirect costs are: Planning and Policy Making, Fiscal Operations, General Administrative Services and Logistical Services. If any costs included in these accounts are claimed as a mandated cost (i.e. salaries of employee performing mandated cost activities), the cost should be reclassified as a direct cost. Accounts in the following groups of accounts should be classified as direct costs: Instruction, Instructional Administration, Instructional Support Services, Admissions and Records, Counseling and Guidance, Other Student Services, Operation and Maintenance of Plant, Community Relations, Staff Services, Non-instructional Staff-Retirees' Benefits and Retirement Incentives, Community Services, Ancillary Services and Auxiliary Operations. A college may classify a portion of the expenses reported in the account Operation and Maintenance of Plant as indirect. The claimant has the option of using a 7% or a higher expense percentage is allowable if the college can support its allocation basis.

The rate, derived by determining the ratio of total indirect expenses and total direct expenses when applied to the direct costs claimed, will result in an equitable distribution of the college's mandate related indirect costs. An example of the methodology used to compute an indirect cost rate is presented in Table 4.

C. Offset Against Mandated Claims

As noted previously, allowable costs are defined as those direct and indirect costs, less applicable credits, considered to be eligible for reimbursement. When all or part of the costs of a mandated program are specifically reimbursable from local assistance revenue sources (e.g., state, federal, foundation, etc.), only that portion of any increased costs payable from school district funds is eligible for reimbursement under the provisions of Government Code Section 17561.

Tab 5

B. Indirect Cost

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(2) Indirect Cost Rate for Community Colleges

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Food Services	364	0	0	0	0	0
Parking	365	420,274	6,857	413,417	0	413,417
Student Activities	3663	0	0	0	0	0
Student Housing	67	0	0	0	0	0
Other	379	0	0	0	0	0
Auxiliary Operations	7000					
Auxiliary Classes	381	1,124,557	12,401	1,112,156	0	1,112,156
Other Auxiliary Operations	382	0	0	0	0	0
Physical Property Acquisitions	7100	814,318	814,318	0	0	0
(05) Total		\$38,608,398	\$3,092,778	\$35,515,620	\$3,575,998	\$31,939,622
(06) Indirect Cost Rate: (Total Indirect Cost/Total Direct Cost)				11.1961%		
(07) Notes						
(a) Mandated Cost activities designated as direct costs per claim instructions.						

DECLARATION OF SERVICE BY EMAIL

I, the undersigned, declare as follows:

I am a resident of the County of Solano and I am over the age of 18 years, and not a party to the within action. My place of employment is 980 Ninth Street, Suite 300, Sacramento, California 95814.

On October 16, 2014, I served the:

SCO Response to Request for Additional Information
Incorrect Reduction Claim
Health Fee Elimination, 05-4206-I-10
Education Code Section 76355
Statutes 1984, Chapter 1; (1983-1984 2nd Ex. Sess.), Statutes 1987, Chapter 1118
Foothill-De Anza County Community College District, Claimant

by making it available on the Commission's website and providing notice of how to locate it to the email addresses provided on the attached mailing list.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that this declaration was executed on October 16, 2014 at Sacramento, California.



Heidi J. Palchik
Commission on State Mandates
980 Ninth Street, Suite 300
Sacramento, CA 95814
(916) 323-3562

COMMISSION ON STATE MANDATES

Mailing List

Last Updated: 8/18/14

Claim Number: 05-4206-I-10

Matter: Health Fee Elimination

Claimant: Foothill-De Anza Community College District

TO ALL PARTIES, INTERESTED PARTIES, AND INTERESTED PERSONS:

Each commission mailing list is continuously updated as requests are received to include or remove any party or person on the mailing list. A current mailing list is provided with commission correspondence, and a copy of the current mailing list is available upon request at any time. Except as provided otherwise by commission rule, when a party or interested party files any written material with the commission concerning a claim, it shall simultaneously serve a copy of the written material on the parties and interested parties to the claim identified on the mailing list provided by the commission. (Cal. Code Regs., tit. 2, § 1181.3.)

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