GROSSMONT UNION HIGH SCHOOL DISTRICT

Audit Report

COLLECTIVE BARGAINING AND COLLECTIVE BARGAINING AGREEMENT DISCLOSURE PROGRAM

Chapter 961, Statutes of 1975;
and Chapter 1213, Statutes of 1991

July 1, 2008, through June 30, 2011

BETTY T. YEE
California State Controller

January 2015

BETTY T. YEE
California State Controller

January 23, 2015

Robert Shield, President
Board Of Education
Grossmont Union High School District
P.O. Box 1043
La Mesa, CA 91944

Dear Mr. Shield:

The State Controller's Office audited the costs claimed by Grossmont Union High School District for the legislatively mandated Collective Bargaining and Collective Bargaining Agreement Disclosure Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2008, through June 30, 2011.

The district claimed $760,700 for the mandated program. Our audit found that $405,115 is allowable and $355,585 is unallowable. The costs are unallowable primarily because the district claimed unsupported costs and claimed costs that were ineligible for reimbursement. The State paid the district $57,523. The State will pay allowable costs claimed that exceed the amount paid, totaling $347,592, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission). 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 Commission'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, by phone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Ralf Swenson, Superintendent
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Grossmont Union High School District for the legislatively mandated Collective Bargaining and Collective Bargaining Agreement Disclosure Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2008, through June 30, 2011.

The district claimed $760,700 for the mandated program. Our audit found that $405,115 is allowable and $355,585 is unallowable. The costs are unallowable primarily because the district claimed unsupported costs and claimed costs that were ineligible for reimbursement. The State paid the district $57,523. The State will pay allowable costs claimed that exceed the amount paid, totaling $347,592, contingent upon available appropriations.

Background

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere for public school employers. The legislation created the Public Employment Relations Board to issue formal interpretations and rulings regarding collective bargaining under the Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives relating to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [Commission]) determined that the Rodda Act imposed a state mandate upon school districts reimbursable under Government Code section 17561.

Chapter 1213, Statutes of 1991, added Government Code section 3547.5, requiring school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding.

On August 20, 1998, the Commission determined that this legislation also imposed a state mandate upon school districts reimbursable under Government Code section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The seven components are as follows:

G1 - Determining bargaining units and exclusive representatives
G2 - Election of unit representatives
G3 - Costs of negotiations
G4 - Impasse proceedings
G5 - Collective bargaining agreement disclosure
G6 - Contract administration
G7 - Unfair labor practice costs

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The Commission adopted the parameters and guidelines on October 22, 1980 and amended them ten times, most recently on January 29, 2010. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objectives, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Collective Bargaining and Collective Bargaining Agreement Disclosure Program for the period of July 1, 2008, through June 30, 2011.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted this performance 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. Our audit scope did not assess the efficiency or effectiveness of program operations.

To achieve our audit objectives, we performed the following audit procedures:

- Interviewed employees, completed the internal control questionnaire, and performed a walk-through of the cost components of each claim.
- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities.

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, Grossmont Union High School District claimed $760,700 for costs of the Collective Bargaining and Collective Bargaining Agreement Disclosure Program. Our audit found that $405,115 is allowable and $355,585 is unallowable.

The State paid the district $57,523. Our audit found that $405,115 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling $347,592, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on December 9, 2014. Scott Patterson, Deputy Superintendent of Business Services, responded by letter dated December 17, 2014 (Attachment), disagreeing with Findings 1 and 2, and agreeing with Finding 3. This final report includes the district's response.

Restricted Use

This report is solely for the information and use of Grossmont Union High School District, the San Diego County Office of Education, the California Department of Education, 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

January 23, 2015

Schedule 1—
Summary of Program Costs
July 1, 2008, through June 30, 2011

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference[1]
July 1, 2008, through June 30, 2009				
Direct Costs				
Component activities G1 through G3:				
Salaries and Benefits	$ 143,948	$ 79,248	$ (64,700)	Finding 1
Materials and Supplies	1,199	1,199	—	
Contract Services	62,066	58,961	(3,105)	Finding 2
Subtotal	207,213	139,408	(67,805)	
Less base-year direct costs adjusted by the implicit price deflator	(10,776)	(10,776)	—	
Increased direct costs, G1 through G3	196,437	128,632	(67,805)	
Component activities G4 through G7:				
Salaries and Benefits	41,586	24,407	(17,179)	Finding 1
Materials and Supplies	3,156	3,156	—	
Contract Services	37,198	19,339	(17,859)	Finding 2
Increased direct costs, G4 through G7	81,940	46,902	(35,038)	
Total increased direct costs, G1 through G7	278,377	175,534	(102,843)	
Indirect costs	6,054	5,933	(121)	Findings 1,2,3
Total direct and indirect costs	284,431	181,467	(102,964)	
Less late filing penalty	—	—	—	
Total program costs	$ 284,431	181,467	$ (102,964)	
Less amount paid by the State		(35,222)		
Allowable costs claimed in excess of (less than) amount paid		$ 146,245		
July 1, 2009, through June 30, 2010				
Direct Costs				
Component activities G1 through G3:				
Salaries and Benefits	$ 122,430	$ 33,175	$ (89,255)	Finding 1
Contract Services	54,489	47,250	(7,239)	Finding 2
Subtotal	176,919	80,425	(96,494)	
Less base-year direct costs adjusted by the implicit price deflator	(10,895)	(10,895)	—	
Increased direct costs, G1 through G3	166,024	69,530	(96,494)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference[1]
July 1, 2009, through June 30, 2010 (continued)				
Component activities G4 through G7:				
Salaries and Benefits	68,254	16,837	(51,417)	Finding 1
Contract Services	38,491	32,012	(6,479)	Finding 2
Increased direct costs, G4 through G7	106,745	48,849	(57,896)	
Total increased direct costs, G1 through G7	272,769	118,379	(154,390)	
Indirect costs	12,138	5,268	(6,870)	Findings 1,2
Total direct and indirect costs	284,907	123,647	(161,260)	
Less late filing penalty	—	—	—	
Total Program costs	$ 284,907	123,647	$ (161,260)	
Less amount paid by the State		(22,301)		
Allowable costs claimed in excess of (less than) amount paid		$ 101,346		
July 1, 2010, through June 30, 2011				
Direct Costs				
Component activities G1 through G3:				
Salaries and Benefits	$ 121,547	$ 67,273	$ (54,274)	Finding 1
Contract Services	38,678	33,987	(4,691)	Finding 2
Subtotal	160,225	101,260	(58,965)	
Less base-year direct costs adjusted by the implicit price deflator	(11,150)	(11,150)	—	
Increased direct costs, G1 through G3	149,075	90,110	(58,965)	
Component activities G4 through G7:				
Salaries and benefits	17,068	1,541	(15,527)	Finding 1
Contract services	15,829	3,443	(12,386)	Finding 2
Increased direct costs, G4 through G7	32,897	4,984	(27,913)	
Total increased direct costs, G1 through G7	181,972	95,094	(86,878)	
Indirect costs	9,390	4,907	(4,483)	Findings 1,2
Total direct and indirect costs	191,362	100,001	(91,361)	
Less late filing penalty	—	—	—	
Total program costs	$ 191,362	100,001	$ (91,361)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 100,001		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference[1]
Summary: July 1, 2008, through June 30, 2011				
Direct Costs				
Component activities G1 through G3:				
Salaries and Benefits	$ 387,925	$ 179,696	$ (208,229)	
Materials and Supplies	1,199	1,199	—	
Contract Services	155,233	140,198	(15,035)	
Subtotal	544,357	321,093	(223,264)	
Less base-year direct costs adjusted by the implicit price deflator	(32,821)	(32,821)	—	
Increased direct costs, G1 through G3	511,536	288,272	(223,264)	
Component activities G4 through G7:				
Salaries and Benefits	126,908	42,785	(84,123)	
Materials and Supplies	3,156	3,156	—	
Contract Services	91,518	54,794	(36,724)	
Increased direct costs, G4 through G7	221,582	100,735	(120,847)	
Total increased direct costs, G1 through G7	733,118	389,007	(344,111)	
Indirect costs	27,582	16,108	(11,474)	
Total direct and indirect costs	760,700	405,115	(355,585)	
Less late filing penalty	—	—	—	
Total program costs	$ 760,700	405,115	$ (355,585)	
Less amount paid by the State		(57,523)		
Allowable costs claimed in excess of (less than) amount paid		$ 347,592		

[1] See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1—Overstated salaries, benefits, and related indirect costs

The district claimed $514,833 in salaries and benefits during the audit period. We found that $222,481 is allowable and $292,352 is unallowable. Related unallowable indirect costs totaled $12,630. The costs are unallowable because the district claimed unsupported and ineligible costs.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the audit period by reimbursable component:

	Fiscal Year			
	2008-09	2009-10	2010-11	Total
Claimed				
Salaries and benefits:				
Component G1	$ —	$ 15	$ —	$ 15
Component G3	143,948	122,415	121,547	387,910
Component G4	13	36,389	668	37,070
Component G6	39,722	30,474	16,365	86,561
Component G7	1,851	1,391	35	3,277
Total	185,534	190,684	138,615	514,833
Allowable				
Salaries and benefits:				
Component G1	—	17	—	17
Component G3	79,248	33,158	67,273	179,679
Component G4	—	4,325	635	4,960
Component G6	24,199	11,224	877	36,300
Component G7	208	1,288	29	1,525
Total	103,655	50,012	68,814	222,481
Audit Adjustment				
Salaries and benefits:				
Component G1	—	2	—	2
Component G3	(64,700)	(89,257)	(54,274)	(208,231)
Component G4	(13)	(32,064)	(33)	(32,110)
Component G6	(15,523)	(19,250)	(15,488)	(50,261)
Component G7	(1,643)	(103)	(6)	(1,752)
Total	(81,879)	(140,672)	(69,801)	(292,352)
Indirect Cost Rate	3.38%	4.45%	5.16%	
Related indirect costs	(2,768)	(6,260)	(3,602)	(12,630)
Audit adjustment	$ (84,647)	$ (146,932)	$ (73,403)	$ (304,982)

The program's parameters and guidelines (section G) state:

> To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. 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. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question.

Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Component G1 – Determining Bargaining Units and Exclusive Representation

The district claimed $15 in salaries and benefits for the Determining Bargaining Units and Exclusive Representation cost component during the audit period. We found that $17 is allowable because the district understated its productive hourly rate by $2.

Component G3 – Cost of Negotiations

The district claimed $387,910 in salaries and benefits for the Cost of Negotiations costs component during the audit period. We found that $179,679 is allowable and $208,231 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs.

Ineligible Costs

The district claimed $6,704 for layoffs, which are not identified in the parameters and guidelines as reimbursable costs.

Unsupported Costs

The district overstated costs by $201,527 during the audit period because the district:

- Did not provide source documentation supporting costs claimed totaling $117,121;
- Provided documentation supporting fewer hours than what was claimed, totaling $5,162;
- Double-claimed hours totaling $11,646;
- Claimed costs for activities that were not related to the Collective Bargaining and Collective Bargaining Agreement Disclosure program, totaling $13,927;
- Over-claimed costs for its substitute teachers, totaling $20,409; and
- Misstated productive hourly rates totaling $33,262. We recalculated the rates based on information the district provided.

Component G4 – Impasse Proceedings

The district claimed $37,070 in salaries and benefits for the Impasse Proceedings cost component during the audit period. We found that $4,960 is allowable and $32,110 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs.

Ineligible Costs

The district claimed $25,214 in impasse mediation planning costs, which are not identified in the parameters and guidelines as a reimbursable activity.

Unsupported Costs

The district claimed $6,896 in unsupported costs. Specifically, the district:

- Did not provide source documentation supporting costs claimed during the audit period totaling $5,124;
- Claimed more than five public-school employer representatives per mediation session for FY 2009-10, totaling $1,060; and
- Misstated productive hourly rates totaling $712. We recalculated the rates based on information the district provided.

Component G6 – Contract Administration

The district claimed $86,561 in salaries and benefits for the Contract Administration cost component during the audit period. We found that $36,300 is allowable and $50,261 is unallowable. The costs are unallowable because the district claimed ineligible costs, unsupported costs, and overstated its productive hourly rates.

Ineligible Costs

The district claimed $641 for layoff activities, which are not identified in the parameters and guidelines as a reimbursable activity.

Unsupported Costs

The district overstated its costs by $49,620 during the audit period. Specifically, the district:

- Did not provide source documentation supporting costs claimed totaling $40,068;
- Did not provide clarification as to how various activities identified on attorney invoices (e.g., payroll issues, personnel issues, fiscal emergency issues, labor relations, various issues, implementation issues, bumping, telephone, schedule issues, and strategy and communication meetings) relate to the Contract Administration cost component and/or the Collective Bargaining and Collective Bargaining Agreement Disclosure program, totaling $4,408; and
- Misstated productive hourly rates totaling $5,144. We recalculated the rates based on information the district provided.

Component G7 – Unfair Labor Practice Charges

The district claimed $3,277 in salaries and benefits for the Unfair Labor Practice Charges cost component during the audit period. We found that $1,525 is allowable and $1,752 is unallowable. The costs are unallowable because the district did not provide documentation supporting the costs claimed.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, 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 ensures that all costs claimed are reimbursable per the parameters and guidelines, and are properly supported. Supporting documentation should identify the mandated functions performed as required by the claiming instructions.

District's Response

Ineligible Cost

The audit report states that staff time spent on the subject matter of layoffs ($6,704 and $641) is not reimbursable because this subject is not identified in the parameters and guidelines as a reimbursable cost. The parameters and guidelines document does not enumerate the *subject matter* of collective bargaining, instead, it enumerates the *process*, e.g., unit determination, negotiations, and contract administration. The subject matter is controlled by the Rodda Act. The layoff process is a proper subject of the Rodda Act. The layoff process is a proper subject of the Rodda Act, and no enumeration in the parameters and guidelines is necessary.

The audit report states that staff time spent planning for the impasse mediation process ($25,214) is not reimbursable because planning time is not identified in the parameters and guidelines as a reimbursable activity. The parameters and guidelines include impasse mediation as a reimbursable process and that staff time is reimbursable. There are no conditions or limitations stated on the nature of the staff time reimbursable, that is, planning time is not excluded in the parameters and guidelines. Planning is an anticipated rational and reasonably necessary part of any process in the usual course of business and the Controller has no basis to exclude it from the impasse component or any other component.

Unsupported Costs

The audit report essentially asserts that a significant part of the staff time to implement the mandated activities is inappropriately or insufficiently documented. The report cites the parameters and guidelines as the legal standard for source documentation.

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. 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. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

None of the governmental entities that establish the accounting standards and reporting requirements that school districts are subject to publish any standards or reporting requirements for state mandated cost accounting. Nor does the Controller, whose particular responsibility has been the payment and audit of the mandate annual claims for more than thirty years (specifically since 1980 for this mandate), publish cost accounting forms for use by claimants to record staff time spent on mandates. In the absence of governmental standards, districts must rely upon documentation produced in the regular course of business, as well as additional forms designed by mandate consultants, for the collection of staff mandate time not otherwise available from regular business records. Where these forms or other documentation were apparently sufficient, the auditor made qualitative judgments regarding the scope of activities as to whether they were related to the mandate program. Where it was not, the audit disallowed the claimed costs for insufficient documentation. Since all of these choices are basic differences, the dispute has to be resolved by the incorrect reduction claim process.

For example, a substantial amount of district staff time was claimed and disallowed based on notations in the attorney billings. Where the attorney billed for time spent with district staff, the district staff time was claimed based on the attorney billing. The audit report states that the district did not provide clarification as to how activities identified on attorney invoices (e.g., payroll issues, personnel issues, fiscal emergency issues, labor relations, various issues, implementation issues, bumping, telephone, schedule issues strategy and communication meetings) relate to the various collective bargaining components. The audit report does not indicate how such clarification is possible other than by the context of the attorney billing. What additional corroboration, that is, what additional piece of paper, is required? Is this second piece of paper likely to exist? If the subject matter of the time billed as described by the attorney is within the scope of the Rodda Act, then both the attorney time and related staff time are reimbursable. These attorney billings are prepared, submitted, and approved by district staff in the usual course of business and additional documentation is not required by any published mandate cost accounting standard.

In a similar manner, a substantial amount of staff time is disallowed because the auditor concluded a separate and additional "source document" was not provided. The staff time was claimed because a source document was available, either a sign-in sheet or meeting notes. The audit does not indicate what additional source document should be reasonably available in the usual course of business or strictly required by any published mandate cost accounting standard. Uniform compliance would be more likely if the Controller published forms for this purpose, as the Controller has done for other programs within the Controller's payment and audit jurisdiction.

The audit report states that substitute teachers were "over-claimed" in the amount of $20,409. Substitutes are reimbursable to facilitate staff participation in the collective bargaining process. The audit report does not indicate which of the substitute time was not related to this purpose.

Adjustments made to the calculation of the productive hourly rates are not disputed at this time.

SCO's Comments

The finding and recommendation remain unchanged. The district's response includes comments about ineligible cost and unsupported costs. Our comments will address these issues in the order that they were presented by the district.

Ineligible Costs

The district believes that the layoff process is controlled by the Rodda Act, and "no enumeration in the parameters and guidelines is necessary." We disagree. While layoffs are common provisions of a contract, discussing the implementation of layoffs is not reimbursable. Further, layoffs, dismissals, and firings are not covered under Chapter 961, Statutes of 1975 and are not identified as a reimbursable activity in the parameters and guidelines or the SCO claiming instructions.

The district states that impasse mediation planning is "an anticipated rational and reasonably necessary part of any process in the usual course of business and that the Controller has no basis to exclude it from the impasse component or any other component." We disagree. Based on documentation provided by the district, claimed costs under the Impasse Proceedings cost component were for "preparing for mediation and/or fact-finding proceedings." However, in the parameters and guidelines there is no mention of preparation costs as a reimbursable activity for the cost component (G4). Further, preparation costs are identified as allowable costs in the parameters and guidelines under the Determining Bargaining Units and Exclusive Representation cost components (G1(c)(2)) and G1(c)(6). Therefore, as the term "preparation" is not included in cost component (G4), mediation preparation is not a reimbursable activity.

G1(c)(2) states that actual preparation time will be reimbursed and G1(c)(6) states that costs of preparation for one transcript will be reimbursed. While the parameters and guidelines are silent regarding impasse proceedings preparation costs, we do not believe that this supports the allowability of such costs. The fact that the Commission on State Mandates uses preparation in other places in the parameters and guidelines supports a contrary conclusion.

Unsupported Costs

The district states that "a substantial amount of district staff time was disallowed based on notations in the attorney billings." The district adds that "if the subject matter of the time billed as described by the attorney is within the scope of the Rodda Act, then both the attorney time and the related staff time are reimbursable." We agree.

However, the district did not support that the activities and time billed as described on the attorney invoices relate to the Collective Bargaining and Collective Bargaining Agreement Disclosure Program. The activities claimed included payroll issues, personnel issues, fiscal emergency issues, labor relations, various issues, implementation issues, bumping, telephone, strategy and communication meetings, and schedule issues. While the district can claim costs for activities it deems are relevant to the mandate, our purpose is to determine whether the costs claimed are adequately supported by source documentation. The parameters and guidelines state: "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* [emphasis added]." We requested that the district clarify how the costs claimed related to the mandated program. However, no such information was provided.

The district states that "a substantial amount of staff time is disallowed because the auditor concluded that a separate and additional 'source document' was not provided." The district believes that staff time was claimed by the district because a source document was available, either from a sign-in sheet or meeting notes. We disagree. We allowed all costs the district supported with source documents that identified the individual who performed the reimbursable activity and the collective bargaining activity involved.

The district states that "substitutes are reimbursable to facilitate staff participation in the collective bargaining process." We agree. However, the time and costs claimed for substitute teachers were incorrectly calculated and claimed. A daily rate for substitutes at the district was $115 plus 13% benefits. If the substitute was needed for less than a full day, a $23 hourly rate should have been applied. We found that substitutes who worked less than a day were claimed at the full-day pay rate. Further, substitute teachers were not identified on the sign-in sheets provided by the district as source documentation. Therefore, we could not verify their attendance in the classroom.

FINDING 2—Overstated contract services and related indirect costs

The district claimed $246,751 in contract services during the audit period. We found that $194,992 is allowable and $51,759 is unallowable. Related unallowable indirect costs totaled $1,491. The costs are unallowable because the district claimed unsupported and ineligible costs.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the audit period by reimbursable component:

	Fiscal Year			
	2008-09	2009-10	2010-11	Total
Claimed				
Contract Services:				
Component G1	$ —	$ 2,092	$ 34	$ 2,126
Component G3	62,066	52,397	38,644	153,107
Component G4	574	16,639	1,856	19,069
Component G6	22,618	18,960	13,804	55,382
Component G7	14,006	2,892	169	17,067
Total	99,264	92,980	54,507	246,751
Allowable				
Contract Services:				
Component G1	—	2,092	34	2,126
Component G3	58,961	45,158	33,953	138,072
Component G4	574	16,200	1,789	18,563
Component G6	4,995	13,223	1,485	19,703
Component G7	13,770	2,589	169	16,528
Total	78,300	79,262	37,430	194,992
Audit Adjustment				
Contract Services:				
Component G1	—	—	—	—
Component G3	(3,105)	(7,239)	(4,691)	(15,035)
Component G4	—	(439)	(67)	(506)
Component G6	(17,623)	(5,737)	(12,319)	(35,679)
Component G7	(236)	(303)	—	(539)
Total	(20,964)	(13,718)	(17,077)	(51,759)
Indirect Cost Rate		4.45%	5.16%	
Related indirect costs		(610)	(881)	(1,491)
Audit adjustment [1]	$ (20,964)	$ (14,328)	$ (17,958)	$ (53,250)

[1] The district did not claim indirect costs on contract services for FY 2008-09 (see Finding 3).

The parameters and guidelines (section G) state, "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."

Component G3 – Cost of Negotiations

The district claimed $153,107 in contract services for the Cost of Negotiations cost component during the audit period. We found that $138,072 is allowable and $15,035 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs.

Ineligible Costs

The district claimed $1,013 for layoffs for FY 2010-11; layoffs are not identified in the parameters and guidelines as reimbursable activities.

Unsupported Costs

The district did not provide clarification on how the activities identified on the attorney invoices relate to the Contract Services cost component and/or the Collective Bargaining and Collective Bargaining Agreement Disclosure Program. These activities were identified by the district as reemployments, bargaining issues, various issues, labor relations issues, personnel issues, negotiation issues, letter correspondence, compensation offer, student progress memo, and warning letter. The unsupported costs totaled $14,022.

Component G4 – Impasse Proceedings

The district claimed $19,069 in contract services for the Impasse Proceedings cost component during the audit period. We found that $18,563 is allowable and $506 is unallowable. The costs are unallowable because the documentation provided did not show evidence that activities claimed (e.g., labor relations, various issues) are reimbursable.

Component G6 – Contract Administration

The district claimed $55,382 in contract services for the Contract Administration cost component during the audit period. We found that $19,703 is allowable and $35,679 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs.

Ineligible Costs

The district claimed $20,959 for layoffs during the audit period. Layoffs are not identified in the parameters and guidelines as reimbursable costs.

Unsupported Costs

The district did not provide clarification for the activities identified on the attorney invoices and their relation to the Collective Bargaining and Collective Bargaining Agreement Disclosure Program. These activities were identified by the district as classified issues, certificated issues, personnel issues, labor relations issues, implementation issues, various issues, fiscal emergency issues, STRS issues, open vs. closed issues,

restructuring, strategy, hearing, MOU, contract language, information request, case status, request for hearing, issues for hearing, discovery response, alum rock, strategy memo, notes and files, correspondence, letter, telephone and emails. The unsupported costs totaled $14,720.

Component G7 – Unfair Labor Practice Charges

The district claimed $17,067 in contract services for the Unfair Labor Practice Charges cost component for contract services during the audit period. We found that $16,528 is allowable and $539 is unallowable. The costs are unallowable because the district did not provide clarification for the activities mentioned on the attorney invoices and their relation to the Collective Bargaining and Collective Bargaining Agreement Disclosure Program. These activities were identified by the district as various issues, strategy issues, MOU, labor relations issues, and telephone.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, 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 that all costs claimed are reimbursable per the parameters and guidelines, and are properly supported. Supporting documentation should identify the mandated functions performed as required by the claiming instructions.

District's Response

Ineligible Costs

The audit report states that billed attorney time spent on the subject matter of layoffs ($1,013 and $20,959) is not reimbursable because this subject is not identified in the parameters and guidelines as a reimbursable cost. The same subject matter standard for staff time applies to attorney time. The layoff process is a proper subject of the Rodda Act, and no enumeration in the parameters and guidelines is otherwise necessary.

Unsupported Costs

The audit report essentially asserts that a significant part of the attorney time to implement the mandated activities is inappropriately or insufficiently documented. The audit report states that the district did not provide clarification as to how activities identified on attorney invoices relate to the collective bargaining components. If the subject matter of the time billed as described by the attorney is within the scope of the Rodda Act, then the attorney time is reimbursable. If cannot be reasonably expected for attorney to use mandate codes (e.g., G1, G2, etc.) or is that required by any published mandate cost accounting standard. The parameters and guidelines (H.5) require, for claiming purposes, that the claimant "show the name of professionals or consultants, specify the functions the consultant performs relative to the

> mandates, length of appointment, and the itemized costs for such services. Invoices must be submitted as supporting documentation with your claim." The source documentation for legal services are the legal billings form the law firm which were provided by the district and which meet the requirements of the parameters and guidelines.

SCO's Comments

Refer to Finding 1 for the SCO's comments related to the issue regarding costs claimed for layoffs. The ineligible costs relate to layoffs, which are not identified in the parameters and guidelines as reimbursable. The unsupported costs relate to costs claimed on attorney invoices that were unallowable because the district did not provide any clarification as to how the various activities mentioned relate to the Collective Bargaining and Collective Bargaining Agreement Disclosure Program.

As indicated in the parameters and guidelines, the district is responsible for supporting the validity of costs claimed. We requested that the district clarify how the costs claimed related to the mandated program. However, no such information was provided.

FINDING 3—Unclaimed indirect costs on contract services

The district did not claim indirect costs on contract services totaling $2,647 for FY 2008-09. We determined allowable indirect costs by multiplying allowable contract services costs by the indirect cost rates the district claimed. The claimed indirect cost rates agreed to the rates approved by the California Department of Education (CDE).

The parameters and guidelines allow indirect cost rates provisionally approved by the CDE. The CDE indirect cost rates apply to direct costs (salaries and benefits, materials and supplies, and contract services). The error occurred because the district followed the Collective Bargaining and Collective Bargaining Agreement Disclosure Program's claiming instructions for Form 1, which inadvertently excluded contract services from the calculation of indirect costs. The claiming instructions have since been corrected.

The following table summarizes the calculation of unclaimed indirect costs on contract services for the audit period:

	Fiscal Year 2008-09
Contract services allowable:	
Components G1 through G3	$ 58,961
Components G4 through G7	19,339
	78,300
Indirect cost rate	3.38%
Audit adjustment	$ 2,647

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, 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 ensures that it applies its indirect cost rate to the applicable direct cost base and follow the updated guidance in the claiming instructions for calculating its indirect costs.

District's Response

The district agreed with the finding.

Attachment—
District's Response to Draft Audit Report

• GOVERNING BOARD MEMBERS

JIM KELLY
PRISCILLA SCHREIBER
ROBERT SHIELD
JIM STIERINGER
DR. GARY WOODS

• SUPERINTENDENT

RALF SWENSON

COMMITTED TO EXCELLENCE
SINCE 1920

December 17, 2014

Mr. Jim L. Spano, Chief
Mandated Costs Audits Bureau
Division of Audits
California State Controller
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Collective Bargaining Audit
FY 2008-09 through FY 2010-11
Grossmont Union High School District

Dear Mr. Spano:

This letter is the response of the Grossmont Union High School District to the draft audit report received by e-mail on December 11, 2014, for the above-referenced program and fiscal years transmitted by the letter dated December 9, 2014, from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

About half of the amounts claimed for reimbursement for the three fiscal years have been disallowed by the audit. In sum, since the Controller does not assert that the claimed costs were excessive or unreasonable, which is the only statutory mandated cost audit standard (Government Code Section 17561(d) (2)), the wrong standard of review was used. The auditors and the audit report allege that general auditing standards are the basis for the adjustments, but do not cite the specific standards which compel the Controller to make the adjustments, when these standards were adopted for mandate cost accounting, or how the standards even apply to mandated costs. An incorrect reduction claim will be needed since most of the adjustments are based on Controller audit policies, the propriety of which can only be determined by appeal to the Commission on State Mandates. The District's incorrect reduction claim will be submitted to the Commission after we receive the final audit report.

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Finding 1 Overstated salaries, benefits, and related indirect costs

The District claimed $514,833 in salaries and benefits during the audit period. The draft audit found that $222,481 is allowable and $292,352 is unallowable, with related unallowable indirect costs of $12,630, because the District claimed unsupported and ineligible costs.

Ineligible Costs

The audit report states that staff time spent on the subject matter of layoffs ($6,704 and $641) is not reimbursable because this subject is not identified in the parameters and guidelines as a reimbursable cost. The parameters and guidelines document does not enumerate the *subject matter* of collective bargaining, instead, it enumerates the *process*, e.g., unit determination, negotiations, and contract administration. The subject matter is controlled by the Rodda Act. The layoff process is a proper subject of the Rodda Act, and no enumeration in the parameters and guidelines is necessary.

The audit report states that staff time spent planning for the impasse mediation process ($25,214) is not reimbursable because planning time is not identified in the parameters and guidelines as a reimbursable activity. The parameters and guidelines include impasse mediation as a reimbursable process and that staff time is reimbursable. There are no conditions or limitations stated on the nature of the staff time reimbursable, that is, planning time is not excluded in the parameters and guidelines. Planning is an anticipated rational and reasonably necessary part of any process in the usual course of business and the Controller has no basis to exclude it from the impasse component or any other component.

Unsupported Costs

The audit report essentially asserts that a significant part of the staff time to implement the mandated activities is inappropriately or insufficiently documented. The report cites the parameters and guidelines as the legal standard for source documentation.

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. 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. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

None of the governmental entities that establish the accounting standards and reporting requirements that school districts are subject to publish any standards or reporting requirements for state mandate cost accounting. Nor does the Controller, whose particular responsibility has been the payment and audit of the mandate annual claims for more than thirty years (specifically since 1980 for this mandate), publish cost accounting forms for use by claimants to record staff time spent on mandates. In the absence of governmental standards, districts must rely upon documentation produced in the regular course of business, as well as additional forms designed by mandate consultants, for the collection of staff mandate time not otherwise available from regular business records. Where these forms or other documentation were apparently sufficient, the auditor made qualitative judgments regarding

the scope of activities as to whether they were related to the mandate program. Where it was not, the auditor disallowed the claimed costs for insufficient documentation. Since all of these choices are basic differences, the dispute has to be resolved by the incorrect reduction claim process.

For example, a substantial amount of District staff time was claimed and disallowed based on notations in the attorney billings. Where the attorney billed for time spent with District staff, the District staff time was claimed based on the attorney billing. The audit report states that the District did not provide clarification as to how activities identified on attorney invoices (e.g., payroll issues, personnel issues, fiscal emergency issues, labor relations, various issues, implementation issues, bumping, telephone, schedule issues, strategy and communication meetings) relate to the various collective bargaining components. The audit report does not indicate how such clarification is possible other than by the context of the attorney billing. What additional corroboration, that is, what additional piece of paper, is required? Is this second piece of paper likely to exist? If the subject matter of the time billed as described by the attorney is within the scope of the Rodda Act, then both the attorney time and related staff time are reimbursable. These attorney billings are prepared, submitted, and approved by District staff in the usual course of business and additional documentation is not required by any published mandate cost accounting standard.

In a similar manner, a substantial amount of staff time is disallowed because the auditor concluded a separate and additional "source document" was not provided. The staff time was claimed because a source document was available, either a sign-in sheet or meeting notes. The audit does not indicate what additional source document should be reasonably available in the usual course of business or strictly required by any published mandate cost accounting standard. Uniform compliance would be more likely if the Controller published forms for this purpose, as the Controller has done for other programs within the Controller's payment and audit jurisdiction.

The audit report states that substitute teachers were "over-claimed" in the amount of $20,409. Substitutes are reimbursable to facilitate staff participation in the collective bargaining process. The audit report does not indicate which of the substitute time was not related to this purpose.

Adjustments made to the calculation of the productive hourly rates are not disputed at this time.

Finding 2 Overstated contract services and related indirect costs

The District claimed $246,751 in contract services during the audit period. The audit report concludes that $194,992 is allowable and $51,759 is unallowable, with related unallowable indirect costs of $1,491, because the District claimed unsupported and ineligible costs.

Ineligible Costs

The audit report states that billed attorney time spent on the subject matter of layoffs ($1,013 and $20,959) is not reimbursable because this subject is not identified in the

parameters and guidelines as a reimbursable cost. The same subject matter standard for staff time applies to attorney time. The layoff process is a proper subject of the Rodda Act, and no enumeration in the parameters and guidelines is otherwise necessary.

Unsupported Costs

The audit report essentially asserts that a significant part of the attorney time to implement the mandated activities is inappropriately or insufficiently documented. The audit report states that the District did not provide clarification as to how activities identified on attorney invoices relate to the collective bargaining components. If the subject matter of the time billed as described by the attorney is within the scope of the Rodda Act, then the attorney time is reimbursable. It cannot be reasonably expected for attorneys to use mandate codes (e.g., G1, G2, etc.) or is that required by any published mandate cost accounting standard. The parameters and guidelines (H.5) require, for claiming purposes, that the claimant "show the name of professionals or consultants, specify the functions the consultants performed relative to the mandates, length of appointment, and the itemized costs for such services. Invoices must be submitted as supporting documentation with your claim." The source documentation for legal services are the legal billings from the law firm which were provided by the District and which meet the requirements of the parameters and guidelines.

Finding 3 Unclaimed indirect costs on contract services

The District did not claim indirect costs on contract services for FY 2008-09. The audit report determined the allowable indirect costs by multiplying allowable contract services costs by the indirect cost rates the district claimed, in the amount of $2,647. The District concurs with this adjustment.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program.

Thank you for your attention to this matter.

Sincerely,

Scott Patterson,
Deputy Superintendent Business Services
Grossmont Union High School District
619.644.8010

SP/cm

State Controller's Office
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