

# **SWEETWATER UNION HIGH SCHOOL DISTRICT**

Audit Report

## **COLLECTIVE BARGAINING PROGRAM**

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

*July 1, 2008, through June 30, 2011*



**JOHN CHIANG**  
California State Controller

September 2013



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

September 10, 2013

Jim Cartmill, President  
Board of Education  
Sweetwater Union High School District  
1130 Fifth Avenue  
Chula Vista, CA 91911

Dear Mr. Cartmill:

The State Controller's Office audited the costs claimed by Sweetwater Union High School District for the legislatively mandated Collective Bargaining 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 \$497,174 for the mandated program. Our audit found that \$325,590 is allowable and \$171,584 is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported costs during the audit period. The State paid the district \$42,305. The State will pay allowable costs claimed that exceed the amount paid, totaling \$283,285, contingent upon available appropriations.

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

Sincerely,

*Original signed by*

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

JVB/vb

cc: Albert Alt, Chief Financial Officer  
Sweetwater Union High School District  
Karen Michel, Director of Fiscal Services  
Sweetwater Union High School District  
Sharon Moreno, Accounting Technician  
Sweetwater Union High School District  
Edward Brand, Ed.D., District Superintendent  
Sweetwater Union High School District  
Sharon C. Jones, President, Board of Education  
San Diego County Office of Education  
Scott Hannan, Director  
School Fiscal Services Division  
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State Controller's Office

# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>2</b>
<b>Views of Responsible Official .....</b>	<b>3</b>
<b>Restricted Use .....</b>	<b>3</b>
<b>Schedule 1—Summary of Program Costs .....</b>	<b>4</b>
<b>Findings and Recommendations .....</b>	<b>6</b>

# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Sweetwater Union High School District for the legislatively mandated Collective Bargaining 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 \$497,174 for the mandated program. Our audit found that \$325,590 is allowable and \$171,584 is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported costs during the audit period. The State paid the district \$42,305. The State will pay allowable costs claimed that exceed the amount paid, totaling \$283,285, 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 [CSM]) 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 CSM 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 CSM 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.

## **Objective, Scope, and Methodology**

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

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Sweetwater Union High School District claimed \$497,174 for costs of the Collective Bargaining Program. Our audit found that \$325,590 is allowable and \$171,584 is unallowable.

For the fiscal year (FY) 2008-09 claim, the State paid the district \$28,321. Our audit found that \$179,386 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$151,065, contingent upon available appropriations.

For the FY 2009-10 claim, the State paid the district \$13,984. Our audit found that \$91,575 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$77,591, contingent upon available appropriations.

For the FY 2010-11 claim, the State made no payments to the district. Our audit found that \$54,629 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$54,629, contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft audit report on June 6, 2013. In an email dated August 19, 2013, Sharon Moreno, Accounting Technician in the Finance Department, stated that the district agreed with the audit results.

**Restricted Use**

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

September 10, 2013

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

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2008, through June 30, 2009</u>				
Direct Costs				
Component activities G1 through G3:				
Salaries and benefits	\$ 156,283	\$ 109,170	\$ (47,113)	Finding 1
Materials and supplies	2,418	1,616	(802)	Finding 2
Travel	883	—	(883)	Finding 3
Contract services	99,166	98,464	(702)	Finding 4
Subtotal	258,750	209,250	(49,500)	
Base year direct costs adjusted by implicit price deflator	(52,949)	(52,949)	—	
Increased direct costs, G1 through G3	205,801	156,301	(49,500)	
Component activities G4 through G7:				
Salaries and benefits	7,481	4,846	(2,635)	Finding 1
Contract services	9,762	9,762	—	
Increased direct costs, G4 through G7	17,243	14,608	(2,635)	
Total increased direct costs, G1 through G7	223,044	170,909	(52,135)	
Indirect costs	5,660	8,477	2,817	Finding 5
Total program costs	\$ 228,704	179,386	\$ (49,318)	
Less amount paid by the State		(28,321)		
Allowable costs claimed in excess of (less than) amount paid		\$ 151,065		
<u>July 1, 2009, through June 30, 2010</u>				
Direct Costs				
Component activities G1 through G3:				
Salaries and benefits	\$ 87,977	40,892	(47,085)	Finding 1
Materials and supplies	6,081	4,597	(1,484)	Finding 2
Contract services	78,417	54,331	(24,086)	Finding 4
Subtotal	172,475	99,820	(72,655)	
Base year direct costs adjusted by implicit price deflator	(53,534)	(53,534)	—	
Increased direct costs, G1 through G3	118,941	46,286	(72,655)	
Component activities G4 through G7:				
Salaries and benefits	26,923	14,864	(12,059)	Finding 1
Contract services	29,801	26,540	(3,261)	Finding 4
Increased direct costs, G4 through G7	56,724	41,404	(15,320)	
Total increased direct costs, G1 through G7	175,665	87,690	(87,975)	
Indirect costs	2,988	3,885	897	Finding 5
Total program costs	\$ 178,653	91,575	\$ (87,078)	
Less amount paid by the State		(13,984)		
Allowable costs claimed in excess of (less than) amount paid		\$ 77,591		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2010, through June 30, 2011</u>				
Direct Costs				
Component activities G1 through G3:				
Salaries and benefits	\$ 59,705	\$ 34,858	\$ (24,847)	Finding 1
Contract services	<u>65,124</u>	<u>65,124</u>	<u>—</u>	
Subtotal	124,829	99,982	(24,847)	
Base year direct costs adjusted by implicit price deflator	<u>(54,790)</u>	<u>(54,790)</u>	<u>—</u>	
Increased direct costs, G1 through G3	<u>70,039</u>	<u>45,192</u>	<u>(24,847)</u>	
Component activities G4 through G7:				
Salaries and benefits	<u>15,160</u>	<u>6,628</u>	<u>(8,532)</u>	Finding 1
Increased direct costs, G4 through G7	<u>15,160</u>	<u>6,628</u>	<u>(8,532)</u>	
Total increased direct costs, G1 through G7	85,199	51,820	(33,379)	
Indirect costs	<u>4,618</u>	<u>2,809</u>	<u>(1,809)</u>	Finding 5
Total program costs	<u>89,817</u>	54,629	<u>\$ (35,188)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 54,629</u>		
<u>Summary: July 1, 2008, through June 30, 2011</u>				
Direct Costs				
Component activities G1 through G3:				
Salaries and benefits	\$ 303,965	\$ 184,920	\$ (119,045)	
Materials and supplies	8,499	6,213	(2,286)	
Travel	883	—	(883)	
Contract services	<u>242,707</u>	<u>217,919</u>	<u>(24,788)</u>	
Subtotal	556,054	409,052	(147,002)	
Base year direct costs adjusted by implicit price deflator	<u>(161,273)</u>	<u>(161,273)</u>	<u>—</u>	
Increased direct costs, G1 through G3	<u>394,781</u>	<u>247,779</u>	<u>(147,002)</u>	
Component activities G4 through G7:				
Salaries and benefits	49,564	26,338	(23,226)	
Contract services	<u>39,563</u>	<u>36,302</u>	<u>(3,261)</u>	
Increased direct costs, G4 through G7	<u>89,127</u>	<u>62,640</u>	<u>(26,487)</u>	
Total increased direct costs, G1 through G7	483,908	310,419	(173,489)	
Indirect costs	<u>13,266</u>	<u>15,171</u>	<u>1,905</u>	
Total program costs	<u>\$ 497,174</u>	325,590	<u>\$ (171,584)</u>	
Less amount paid by the State		<u>(42,305)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 283,285</u>		

<sup>1</sup> See the Finding and Recommendation section.

# Findings and Recommendations

## FINDING 1— Overstated salaries and benefits

The district claimed \$353,529 in salaries and benefits during the audit period. We determined that \$211,258 is allowable and \$142,271 is unallowable. The unallowable costs consist of ineligible preparation and planning costs, overstated at-table negotiation costs, unsupported costs for substitutes, and incorrectly calculated salaries and benefit rates.

The following table summarizes the overstated salaries and benefits by cost component for the audit period:

<u>Salaries and benefits:</u>	<u>Amount Claimed</u>	<u>Amount Allowed</u>	<u>Audit Adjustment</u>
<u>FY 2008-09</u>			
G3 - Costs of negotiations	\$ 156,283	\$ 109,170	\$ (47,113)
G4 - Impasse proceedings	2,935	3,002	67
G6 - Contract administration	4,546	1,844	(2,702)
Subtotal	<u>163,764</u>	<u>114,016</u>	<u>(49,748)</u>
<u>FY 2009-10</u>			
G3 - Costs of negotiations	87,977	40,892	(47,085)
G4 - Impasse proceedings	15,999	10,783	(5,216)
G6 - Contract administration	10,924	4,081	(6,843)
Subtotal	<u>114,900</u>	<u>55,756</u>	<u>(59,144)</u>
<u>FY 2010-11</u>			
G3 - Costs of negotiations	59,705	34,858	(24,847)
G4 - Impasse proceedings	6,266	2,707	(3,559)
G6 - Contract administration	8,894	3,921	(4,973)
Subtotal	<u>74,865</u>	<u>41,486</u>	<u>(33,379)</u>
<u>Summary</u>			
G3 - Costs of negotiations	\$ 303,965	\$ 184,920	\$ (119,045)
G4 - Impasse proceedings	25,200	16,492	(8,708)
G6 - Contract administration	24,364	9,846	(14,518)
Total	<u>\$ 353,529</u>	<u>\$ 211,258</u>	<u>\$ (142,271)</u>

The program's parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will only be reimbursed for the "increased costs" incurred as a result of compliance with the mandate. Government Code section 17514 states that "costs mandated by the State" means any increased costs that a school district is required to incur.

### Component G3 – Cost of Negotiations

The district claimed \$303,965 for the Cost of Negotiations cost component. We determined that \$184,920 is allowable and \$119,045 is unallowable.

The costs are unallowable for the following reasons:

- The district claimed costs for employees preparing for negotiation meetings individually, which is not identified in the parameters and guidelines as a reimbursable activity. The parameters and guidelines only allow preparation costs associated with the determination of the exclusive representative.
- The district overstated costs because it miscalculated its salaries and benefits rates.
- The district claimed costs without providing any supporting documentation. The unsupported costs included activities such as at-table negotiations, negotiation planning sessions, and substitute costs for negotiation meetings.

The following table summarizes the claimed, allowable, and unallowable costs for the various negotiation activities for which the district claimed costs:

<u>Activity</u>	<u>Claimed Costs</u>	<u>Allowed Costs</u>	<u>Audit Adjustment</u>
Negotiations and planning sessions	\$ 187,592	\$ 180,889	\$ (6,703)
Preparation costs	97,699	-	(97,699)
Substitute costs	18,674	4,031	(14,643)
Total cost of negotiations	<u>\$ 303,965</u>	<u>\$ 184,920</u>	<u>\$ (119,045)</u>

#### **Component G4 – Impasse Proceedings**

The district claimed \$25,200 for the Impasse Proceedings cost component. We determined that \$16,492 is allowable and \$8,708 is unallowable.

The costs are unallowable for the following reasons:

- The district claimed preparation costs for time spent to prepare for upcoming impasse meetings; these preparation costs are not identified in the parameters and guidelines as reimbursable.
- The district overstated costs because it miscalculated its salaries and benefit rates.
- The district claimed costs without any supporting documentation.

The unsupported costs include substitute costs for the release time of exclusive bargaining unit representatives to attend impasse meetings.

The following table summarizes the claimed, allowable, and unallowable costs for the various impasse proceeding activities for which the district claimed costs:

<u>Activity</u>	<u>Claimed Costs</u>	<u>Allowed Costs</u>	<u>Audit Adjustment</u>
Arbitration costs	\$ 3,731	\$ 1,793	\$ (1,938)
Mediation costs	20,199	14,469	(5,730)
Mediation substitutes	1,270	230	(1,040)
Total impasse proceedings	<u>\$ 25,200</u>	<u>\$ 16,492</u>	<u>\$ (8,708)</u>

### **Component G6-Contract Administration**

The district claimed \$24,364 for the Contract Administration cost component. We determined that \$9,846 is allowable and \$14,518 is unallowable.

The costs are unallowable for the following reasons:

- The district claimed preparation costs for grievances; these preparation costs are not identified in the parameters and guidelines as reimbursable.
- The district understated allowable costs for grievance meetings.
- The district claimed substitute costs for release time of the representatives of an exclusive bargaining unit during adjudication of contract disputes (grievances) without any supporting documentation.

The following table summarizes the claimed, allowable, and unallowable costs for the various contract administration activities for which the district claimed costs:

<u>Activity</u>	<u>Claimed Costs</u>	<u>Allowed Costs</u>	<u>Audit Adjustment</u>
Grievance costs	\$ 23,647	\$ 9,646	\$ (14,001)
Grievance substitutes	717	200	(517)
Total contract administration	<u>\$ 24,364</u>	<u>\$ 9,846</u>	<u>\$ (14,518)</u>

### **Recommendation**

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**

The district agreed with the finding.

**FINDING 2—  
Unsupported  
materials and supplies**

The district claimed \$8,499 for materials and supplies for FY 2008-09 and FY 2009-10. We determined that \$6,213 is allowable and \$2,286 is unallowable. The unallowable costs consist of unsupported costs claimed (missing invoices) in FY 2009-10 as well as computer costs in FY 2008-09 relating to a three-year service plan for computer maintenance that is not identified in the parameters and guidelines as a reimbursable activity.

The following table summarizes the unsupported materials and supplies by reimbursable component for the audit period:

Materials and supplies:

	Amount <u>Claimed</u>	Amount <u>Allowed</u>	Audit <u>Adjustment</u>
<u>G3-Cost of negotiations</u>			
FY 2008-09	\$ 2,418	\$ 1,616	\$ (802)
FY 2009-10	<u>6,081</u>	<u>4,597</u>	<u>(1,484)</u>
Total	<u>\$ 8,499</u>	<u>\$ 6,213</u>	<u>\$ (2,286)</u>

The parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will be reimbursed only for the “increased costs” incurred. Government Code section 17514 states that “costs mandated by the State” means any increased costs that a school district is required to incur.

The parameters and guidelines also state that the 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 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

The district agreed with the finding.

**FINDING 3—  
Ineligible travel costs**

The district claimed \$883 for travel costs for FY 2008-09 for district employees attending a California School Employees Association (CSEA) conference. The parameters and guidelines (section G.6(c)) state that “Personal development and informational programs, i.e., classes, conferences, seminars, workshops, and time spent by employees attending such meetings are not reimbursable.” Therefore, the related travel is not reimbursable.

The parameters and guidelines also state that the 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.

The following table summarizes the ineligible travel costs for the audit period:

Travel costs:

	Amount Claimed	Amount Allowed	Audit Adjustment
<u>G3-Costs of negotiations</u>			
FY 2008-09	\$ 883	\$ -	\$ (883)
Total	<u>\$ 883</u>	<u>\$ -</u>	<u>\$ (883)</u>

#### Recommendation

We recommend that the district ensure that claimed costs include only eligible costs, and that the costs claimed are reimbursable and properly supported per the collective bargaining parameters and guidelines.

#### District's Response

The district agreed with the finding.

#### **FINDING 4— Overstated contract service costs**

The district claimed \$282,270 for contract services for the audit period. We determined that \$254,221 is allowable and \$28,049 is unallowable. The costs are unallowable primarily because the district did not provide documentation to support the costs claimed.

The following table summarizes the overstated contract service costs:

	Amount Claimed	Amount Allowed	Audit Adjustment
<u>Contract Services:</u>			
<u>FY 2008-09</u>			
G3-Cost of negotiations	\$ 99,166	\$ 98,464	\$ (702)
G4- Impasses proceedings	9,019	9,019	-
G6-Contract administration	743	743	-
Subtotal	<u>108,928</u>	<u>108,226</u>	<u>(702)</u>
<u>FY 2009-10</u>			
G3-Cost of negotiations	78,417	54,331	(24,086)
G4- Impasses proceedings	5,536	5,536	-
G7- Unfair labor practice charges	24,265	21,004	(3,261)
Subtotal	<u>108,218</u>	<u>80,871</u>	<u>(27,347)</u>
<u>FY 2010-11</u>			
G3-Cost of negotiations	65,124	65,124	-
Subtotal	<u>65,124</u>	<u>65,124</u>	<u>-</u>
<u>Summary</u>			
G3-Cost of negotiations	\$ 242,707	\$ 217,919	\$ (24,788)
G4- Impasses proceedings	14,555	14,555	-
G6-Contract administration	743	743	-
G7- Unfair labor practice charges	24,265	21,004	(3,261)
Total contract services	<u>\$ 282,270</u>	<u>\$ 254,221</u>	<u>\$ (28,049)</u>

### Component G3 - Cost of Negotiations

For the Cost of Negotiations cost component, the district claimed \$242,707. We determined that \$217,919 is allowable and \$24,788 is unallowable.

The costs are unallowable because they included unsupported consulting fees; ineligible costs related to sick-outs, potential strikes, and informational picketing; ineligible travel costs at a claimed rate higher than the allowable rates; and overstated attorney costs.

The following table summarizes the claimed, allowable, and unallowable costs for the various contract service costs:

<u>Activity</u>	<u>Claimed Costs</u>	<u>Allowed Costs</u>	<u>Audit Adjustment</u>
Attorney fees	\$ 235,780	\$ 211,593	\$ (24,187)
Travel costs	6,927	6,326	(601)
Total	<u>\$ 242,707</u>	<u>\$ 217,919</u>	<u>\$ (24,788)</u>

### Component G7 - Unfair Labor Practice Charges

For the Unfair Labor Practice Charges cost component, the district overstated costs by \$3,261. The district claimed \$4,813 in consulting fees for Hutchens Consulting Services without any supporting documentation. The district also claimed reimbursements for consultants at a higher rate than that received by State employees, and \$747 in costs related to sick-outs, potential strikes, and informational picketing, none of which are identified in the parameters and guidelines as reimbursable activities. In addition, the district did not claim \$2,299 in eligible attorney costs.

The following table summarizes the claimed, allowable, and unallowable costs for the various unfair labor activities for which the district claimed costs:

<u>Activity</u>	<u>Claimed Costs</u>	<u>Allowed Costs</u>	<u>Audit Adjustment</u>
Attorney fees	\$ 24,265	\$ 18,705	\$ (5,560)
Unclaimed costs	-	2,299	2,299
Total	<u>\$ 24,265</u>	<u>\$ 21,004</u>	<u>\$ (3,261)</u>

The parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will be reimbursed only for the “increased costs” incurred. Government Code section 17514 states that “costs mandated by the State” means any increased costs that a school district is required to incur.

Additionally, the parameters and guidelines (Section H.5) state that expenses for consultants and experts (including attorneys) hired by the claimant shall not be reimbursed in an amount higher than that received by State employees, as established under California Administrative Code, Title 2, Division 2, Section 700ff.

The parameters and guidelines also state that the 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 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

The district agreed with the finding.

### **FINDING 5— Understated indirect costs**

The district claimed \$13,266 in indirect costs for the audit period. We determined that the district understated its costs by \$1,905, consisting of \$8,951 in unclaimed indirect costs for contract services and \$7,046 in overstated costs that resulted from the adjustments identified in Findings 1 through 4.

The parameters and guidelines require the claimant to use CDE-approved indirect cost rates. The SCO's claiming instructions state that the CDE-approved indirect cost rates should be applied to direct costs. However, the district only applied the indirect cost rates to direct costs, less contract services.

We recalculated allowable indirect costs by applying the CDE-approved indirect cost rates to increased direct costs (net of base year costs). We calculated the audit adjustment by deducting claimed indirect costs from allowable indirect costs.

The district calculated its indirect costs on salaries and benefits, materials and supplies, and travel, but did not include contract services in its calculations. The \$1,905 is comprised of \$8,951 in allowable indirect costs for contract services offset by \$7,046 in unallowable indirect costs related to the adjustments in Findings 1 through 4 for salaries and benefits, materials and supplies, and travel.

The following table summarizes the calculation of indirect costs for the audit period:

	Fiscal Year			Total
	2008-09	2009-10	2010-11	
Indirect costs:				
Total direct costs	\$ 223,857	\$ 141,224	\$ 106,610	
Less: base year costs	<u>52,949</u>	<u>53,534</u>	<u>54,790</u>	
Increased direct costs	170,908	87,690	51,820	
Indirect costs rate	<u>4.96%</u>	<u>4.43%</u>	<u>5.42%</u>	
Allowable indirect costs	8,477	3,885	2,809	15,171
Less: claimed indirect costs	<u>5,660</u>	<u>2,988</u>	<u>4,618</u>	<u>13,266</u>
Audit adjustment	<u>2,817</u>	<u>897</u>	<u>(1,809)</u>	<u>1,905</u>

### Recommendation

We recommend that the district follow the SCO's updated claiming instructions for guidance in calculating indirect costs.

### District's Response

The district agreed with the finding.

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