



JOHN CHIANG
California State Controller

October 7, 2013

Pam Able, Superintendent
Modesto City Schools
426 Locust Street
Modesto, CA 95351

Dear Ms. Able:

The State Controller's Office reviewed the costs claimed by Modesto City Schools for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2006, through June 30, 2007; and July 1, 2008, through June 30, 2012. We did not include the costs claimed for the period of July 1, 2007, through June 30, 2008, in the review period because the statute of limitations to initiate the review has expired. Our review was limited to ensuring that direct and indirect costs were properly reported in accordance with program requirements.

The district claimed \$441,049 for the mandated program. Our review found that \$235,598 is allowable and \$205,451 is unallowable. The costs are unallowable because the district did not report any Winton Act base-year costs and did not claim indirect costs on contract services, as described in the attached Summary of Program Costs and the Findings and Recommendations.

We informed Julie Chapin, Associate Superintendent of Business Services, of the review results via email on September 10, 2013. We did not receive a response from the district.

For the fiscal year (FY) 2006-07 claim, the State made no payment to the district. Our review found that \$47,988 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2008-09 claim, the State paid the district \$2,522. Our review found that \$24,694 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$22,172, contingent upon available appropriations.

For the FY 2009-10 claim, the State paid the district \$10,147. Our review found that \$78,130 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$67,983, contingent upon available appropriations.

For the FY 2010-11 claim, the State made no payment to the district. Our review found that \$47,236 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2011-12 claim, the State made no payment to the district. Our review found that \$37,550 is allowable. The State will pay that amount, contingent upon available appropriations.

If you disagree with the review findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCFrm.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/nh

Attachments

RE: S14-MCC-907

cc: Julie Chapin, Associate Superintendent of Business Services
Modesto City Schools
Grant Schimelpfening, Senior Director of Financial Services
Modesto City Schools
Tom Changnon, County Superintendent of Schools
Stanislaus County Office of Education
Scott Hannan, Director, School Fiscal Services Division
California Department of Education
Carol Bingham, Director, Fiscal Policy Division
California Department of Education
Thomas Todd, Assistant Program Budget Manager
Education Systems Unit, California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

**Attachment 1—
Summary of Program Costs
July 1, 2006, through June 30, 2007;
and July 1, 2008, through June 30, 2012**

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 15,533	\$ 15,533	\$ —	
Materials and supplies	930	930	—	
Contract services	473	473	—	
Subtotal	16,936	16,936	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(44,853)	(44,853)	Finding 1
Subtotal	16,936	(27,917)	(44,853)	
Adjustment to eliminate negative balance	—	27,917	27,917	
Increased direct costs, G1 through G3	16,936	—	(16,936)	
Component activities G4 through G7:				
Salaries and benefits	45,491	45,491	—	
Increased direct costs, G4 through G7	45,491	45,491	—	
Total increased direct costs, G1 through G7	62,427	45,491	(16,936)	
Indirect costs	3,427	2,497	(930)	Finding 1
Total program costs	<u>\$ 65,854</u>	47,988	<u>\$ (17,866)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 47,988</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 26,382	\$ 26,382	\$ —	
Contract services	1,721	1,721	—	
Subtotal	28,103	28,103	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(49,281)	(49,281)	Finding 1
Subtotal	28,103	(21,178)	(49,281)	
Adjustment to eliminate negative balance	—	21,178	21,178	
Increased direct costs, G1 through G3	28,103	—	(28,103)	
Component activities G4 through G7:				
Salaries and benefits	20,661	20,661	—	
Contract services	2,666	2,666	—	
Increased direct costs, G4 through G7	23,327	23,327	—	
Total increased direct costs, G1 through G7	51,430	23,327	(28,103)	
Indirect costs	2,757	1,367	(1,390)	Findings 1, 2
Total program costs	<u>\$ 54,187</u>	24,694	<u>\$ (29,493)</u>	
Less amount paid by the State		(2,522)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 22,172</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 54,066	\$ 54,066	\$ —	
Materials and supplies	90	90	—	
Contract services	7,268	7,268	—	
Subtotal	61,424	61,424	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(49,827)	(49,827)	Finding 1
Increased direct costs, G1 through G3	61,424	11,597	(49,827)	
Component activities G4 through G7:				
Salaries and benefits	60,324	60,324	—	
Contract services	3,024	3,024	—	
Increased direct costs, G4 through G7	63,348	63,348	—	
Total increased direct costs, G1 through G7	124,772	74,945	(49,827)	
Indirect costs	4,865	3,185	(1,680)	Findings 1, 2
Total program costs	<u>\$ 129,637</u>	78,130	<u>\$ (51,507)</u>	
Less amount paid by the State		(10,147)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 67,983</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 23,419	\$ 23,419	\$ —	
Materials and supplies	75	75	—	
Contract services	32,797	32,797	—	
Subtotal	56,291	56,291	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(50,995)	(50,995)	Finding 1
Increased direct costs, G1 through G3	56,291	5,296	(50,995)	
Component activities G4 through G7:				
Salaries and benefits	32,145	32,145	—	
Contract services	8,040	8,040	—	
Increased direct costs, G4 through G7	40,185	40,185	—	
Total increased direct costs, G1 through G7	96,476	45,481	(50,995)	
Indirect costs	2,148	1,755	(393)	Findings 1, 2
Total program costs	<u>\$ 98,624</u>	47,236	<u>\$ (51,388)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 47,236</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 64,133	\$ 64,133	\$ —	
Contract services	5,063	5,063	—	
Subtotal	69,196	69,196	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(52,720)	(52,720)	Finding 1
Increased direct costs, G1 through G3	69,196	16,476	(52,720)	
Component activities G4 through G7:				
Salaries and benefits	15,673	15,673	—	
Contract services	3,409	3,409	—	
Increased direct costs, G4 through G7	19,082	19,082	—	
Total increased direct costs, G1 through G7	88,278	35,558	(52,720)	
Indirect costs	4,469	1,992	(2,477)	Findings 1, 2
Total program costs	<u>\$ 92,747</u>	37,550	<u>\$ (55,197)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 37,550</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment	Reference ¹
<u>Summary: July 1, 2006, through June 30, 2007; and July 1, 2008, through June 30, 2012</u>				
Total increased direct costs, G1 through G7	\$ 423,383	\$ 224,802	\$ (198,581)	
Indirect costs	17,666	10,796	(6,870)	
Total program costs	<u>\$ 441,049</u>	235,598	<u>\$ (205,451)</u>	
Less amount paid by the State		(12,669)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 222,929</u>		

¹ See Attachment 2, Findings and Recommendations.

Attachment 2— Findings and Recommendations July 1, 2006, through June 30, 2007; and July 1, 2008, through June 30, 2012

Background

The current findings are the result of our review of the mandated cost claims filed for the legislatively mandated Collective Bargaining Program for the period of July 1, 2006, through June 30, 2007; and July 1, 2008, through June 30, 2012.

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 related 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; which requires school districts to publically 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.

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 program's parameters and guidelines establish the state mandate and define the 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 State Controller's Office issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

**FINDING 1—
Unreported Winton Act
base-year direct costs**

The district did not report any Winton Act direct costs on its mandated cost claims for fiscal year (FY) 2006-07; and FY 2008-09 through FY 2011-12. Specifically, the district did not offset the Winton Act base-year costs against the current-year Rodda Act costs for components G1 through G3, thus understating the Winton Act base-year costs by \$247,676 for the review period. Unallowable related indirect costs total \$9,614.

The following table summarizes the unreported Winton Act base-year cost adjustment by fiscal year:

	Fiscal Year					Total
	2006-07	2008-09	2009-10	2010-11	2011-12	
Winton Act base-year costs, FY 1995-96	\$ (11,127)	\$ (11,127)	\$ (11,127)	\$ (11,127)	\$ (11,127)	
Implicit price deflator (IPD)	x 4.031	x 4.429	x 4.478	x 4.583	x 4.738	
Winton Act base-year costs adjusted by the IPD	(44,853)	(49,281)	(49,827)	(50,995)	(52,720)	(247,676)
Less: reported Winton Act base-year costs	-	-	-	-	-	-
Unreported Winton Act base-year costs adjusted by the IPD	(44,853)	(49,281)	(49,827)	(50,995)	(52,720)	(247,676)
Related indirect cost adjustment	(930)	(1,647)	(2,117)	(1,968)	(2,952)	(9,614)
Review adjustment	<u>\$ (45,783)</u>	<u>\$ (50,928)</u>	<u>\$ (51,944)</u>	<u>\$ (52,963)</u>	<u>\$ (55,672)</u>	<u>\$ (257,290)</u>

The amended parameters and guidelines (Section H – Supporting Data for Claims – Report Format for Submission of Claim) state:

- a. For component activities G1, G2, and G3:
 - 1. Determination of the “increased costs” for each of these three components requires the costs of current year Rodda Act activities to be offset [reduced] by the cost of the base-year Winton Act activities. The Winton Act base-year is generally fiscal year 1974-75.

Winton Act base-year costs are adjusted by the Implicit Price Deflator prior to offset against the current year Rodda Act costs for these three components. The Implicit Price Deflator shall be listed in the annual claiming instructions of the State Controller.

The Winton Act base-year costs were obtained from the FY 1995-96 claim the district submitted to the State Controller's Office (SCO), Division of Accounting and Reporting. The implicit price deflator (IPD) is reported in the SCO’s annual claiming instructions.

Recommendation

We recommend that the district ensure that all Winton Act base-year costs are adjusted by the IPD, as listed in the SCO’s annual claiming instructions, and are properly offset against the district’s current-year Rodda Act direct costs claimed.

**FINDING 2—
Unclaimed indirect costs
on contract services**

The district did not claim indirect costs on contract services for FY 2008-09 through FY 2011-12, resulting in an understatement of \$2,744. We determined allowable indirect costs by multiplying allowable contract services by the indirect cost rates claimed by the district, which agreed to the indirect cost 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 total direct costs (salaries and benefits, materials and supplies, and contract services). The error occurred because the district followed the claiming instructions identified on Form 1 for the Collective Bargaining Program that inadvertently excluded contract services from the calculation of indirect costs. The Collective Bargaining Program claiming instructions have since been corrected.

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

	Fiscal Year				Total
	2008-09	2009-10	2010-11	2011-12	
Allowable contract services	\$ 4,387	\$ 10,292	\$ 40,837	\$ 8,472	
Claimed indirect cost rate	5.86%	4.25%	3.86%	5.60%	
Review adjustment	\$ 257	\$ 437	\$ 1,575	\$ 475	\$ 2,744

Recommendation

We recommend that the district follow the updated guidance in the claiming instructions for calculating indirect costs on contract services.