



BETTY T. YEE
California State Controller

October 16, 2015

Steve Boyle, Superintendent
Escondido Union High School District
302 North Midway Drive
Escondido, CA 92027-2741

Dear Mr. Boyle:

The State Controller's Office performed a desk review of costs claimed by the Escondido 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, 2010, through June 30, 2012. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to ensuring that direct and indirect costs were properly reported in accordance with program requirements.

The district claimed \$58,938 for the mandated program. Our review found that \$33,172 is allowable and \$25,766 is unallowable. The costs are unallowable because the district did not report the Winton Act base-year costs and did not claim indirect costs for contract services, as described in the attached Summary of Program Costs and the Review Results. The State made no payments to the district. The State will pay \$33,172, contingent upon available appropriations.

We informed Michael Simonson, Assistant Superintendent of Business Services, of the findings via email on September 22, 2015. We did not receive a response from the district.

If you disagree with the review 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 of this report. 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 telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lb

Attachments

RE: S15-MCC-9029

cc: Michael Simonson, Assistant Superintendent of Business Services
Escondido Union High School District
Nadine Krawietz, Finance Director
Escondido Union High School District
Brent Watson, Executive Director
Business Advisory Services
San Diego County Office of Education
Peter Foggato, Director
School Fiscal Services Division
California Department of Education
Amy Tang-Paterno, Education Fiscal Services Consultant
Government Affairs 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, 2010, through June 30, 2012

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:				
Materials and supplies	\$ 4	\$ 4	\$ -	
Contract services	4,388	4,388	-	
Subtotal	4,392	4,392	-	
Less base-year direct costs adjusted by the Implicit Price Deflator	-	(21,082)	-	
Subtotal	4,392	(16,690)	(21,082)	Finding 1
Adjustment to eliminate negative balance	-	16,690	16,690	
Increased direct costs, G1 through G3	4,392	-	(4,392)	
Component activities G4 through G7:				
Materials and supplies	449	449	-	
Contract services	14,141	14,141	-	
Increased direct costs, G4 through G7	14,590	14,590	-	
Total increased direct costs, G1 through G7	18,982	14,590	(4,392)	
Indirect costs	16	515	499	Findings 1, 2
Total program costs	<u>\$ 18,998</u>	15,105	<u>\$ (3,893)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 15,105</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 17,631	\$ 17,631	\$ -	
Contract services	20,580	20,580	-	
Subtotal	38,211	38,211	-	
Less base-year direct costs adjusted by the Implicit Price Deflator	-	(21,795)	(21,795)	Finding 1
Increased direct costs, G1 through G3	38,211	16,416	(21,795)	
Component activities G4 through G7:				
Salaries and benefits	507	507	-	
Contract services	34	34	-	
Increased direct costs, G4 through G7	541	541	-	
Total increased direct costs, G1 through G7	38,752	16,957	(21,795)	
Indirect costs	1,188	1,110	(78)	Findings 1, 2
Total program costs	<u>\$ 39,940</u>	18,067	<u>\$ (21,873)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 18,067</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>Summary: July 1, 2010, through June 30, 2012</u>				
Total increased direct costs, G1 through G7	\$ 57,734	\$ 31,547	\$ (26,187)	
Indirect costs	1,204	1,625	421	
Total program costs ²	<u>\$ 58,938</u>	33,172	<u>\$ (25,766)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 33,172</u>		

¹ See Attachment 2, Review Results.

² The \$25,766 review adjustment is the \$42,456 adjustment for Findings 1 and 2, net of the negative allowable cost reduction of \$16,690 for FY 2010-11.

Attachment 2— Review Results July 1, 2010, through June 30, 2012

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 Rodda 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 [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. This section requires 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.

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 [FY] 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 – Cost of negotiations
- G4 – Impasse proceedings
- G5 – Collective bargaining agreement disclosure
- G6 – Contract administration
- G7 – Unfair labor practice charges

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

The current findings are the result of our review of the mandated cost claims filed for the legislatively mandated Collective Bargaining and Collective Bargaining Agreement Disclosure Program for the period of July 1, 2010, through June 30, 2012.

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

The district did not report the Winton Act base-year direct costs on its mandated cost claims for FY 2010-11 and 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 \$42,877 for the review period. Unallowable related indirect costs total \$1,583.

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

	Fiscal Year		Total
	2010-11	2011-12	
Winton Act base-year costs, FY 1996-97	\$ (4,600)	\$ (4,600)	
Implicit Price Deflator (IPD)	× 4.583	× 4.738	
Winton Act base-year costs adjusted by the IPD	(21,082)	(21,795)	\$ (42,877)
Less reported Winton Act base-year costs	-	-	-
Unreported Winton Act base-year costs adjusted by the IPD	(21,082)	(21,795)	(42,877)
Related indirect cost adjustment	(155)	(1,428)	(1,583)
Review adjustment	\$ (21,237)	\$ (23,223)	\$ (44,460)

The 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 1996-97 claim the district submitted to the SCO’s Division of Accounting and Reporting. The Implicit Price Deflator is reported in the SCO’s annual claiming instructions.

Recommendation

Commencing in FY 2013-14, 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 Winton Act base-year costs are adjusted by the Implicit Price Deflator, 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
for contract services**

The district did not claim indirect costs for contract services for FY 2010-11 and FY 2011-12, resulting in an understatement of \$2,004. We determined allowable indirect costs by multiplying claimed contract service costs by the indirect cost rate claimed by the district, which agreed to the indirect cost rate 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 are applied to total direct costs (salaries and benefits, materials and supplies, and contract services).

The following table summarizes the calculation of unclaimed indirect costs for contract services by fiscal year:

	Fiscal Year		Total
	2010-11	2011-12	
Claimed contract services	\$ 18,529	\$ 20,614	
Claimed indirect cost rate	3.53%	6.55%	
Review adjustment	\$ 654	\$ 1,350	\$ 2,004

Recommendation

Commencing in FY 2013-14, 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 follow the SCO claiming instructions for calculating indirect costs.