



JOHN CHIANG
California State Controller

November 7, 2013

Sid Salazar, Ed.D., Superintendent of Schools
Alvord Unified School District
10365 Keller Avenue
Riverside, CA 92505

Dear Dr. Salazar:

The State Controller's Office reviewed the costs claimed by Alvord Unified 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, 2009, 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 \$206,379 for the mandated program. Our review found that \$79,761 is allowable and \$126,618 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. The State paid the district \$10,723. The State will pay allowable costs claimed that exceed the amount paid, totaling \$69,038, contingent upon available appropriations.

We informed Herb Calderon, Assistant Superintendent of Business Services, of the review adjustments via email on October 17, 2013. 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 (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/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/sk

Sid Salazar, Ed.D.,
Superintendent of Schools

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November 7, 2013

Attachments

RE: S14-MCC-906

cc: Herb Calderon, Assistant Superintendent of Business Services
Alvord Unified School District
Jeff Hinshaw, Controller
Alvord Unified School District
Kenneth M. Young, County Superintendent of Schools
Riverside 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, 2009, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 63,785	\$ 63,785	\$ —	
Contract services	6,455	6,455	—	
Subtotal	70,240	70,240	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(150,537)	(150,537)	Finding 1
Subtotal	70,240	(80,297)	(150,537)	
Adjustment to eliminate negative balance	—	80,297	80,297	
Increased direct costs, G1 through G3	70,240	—	(70,240)	
Component activities G4 through G7:				
Salaries and benefits	29,894	29,894	—	
Contract services	32,927	32,927	—	
Increased direct costs, G4 through G7	62,821	62,821	—	
Total increased direct costs, G1 through G7	133,061	62,821	(70,240)	
Indirect costs	3,935	2,638	(1,297)	Findings 1, 2
Total program costs	<u>\$ 136,996</u>	65,459	<u>\$ (71,537)</u>	
Less amount paid by the State		(10,723)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 54,736</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 26,488	\$ 26,488	\$ —	
Contract services	236	236	—	
Subtotal	26,724	26,724	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(154,067)	(154,067)	Finding 1
Subtotal	26,724	(127,343)	(154,067)	
Adjustment to eliminate negative balance	—	127,343	127,343	
Increased direct costs, G1 through G3	26,724	—	(26,724)	
Component activities G4 through G7:				
Salaries and benefits	6,879	6,879	—	
Contract services	3,340	3,340	—	
Increased direct costs, G4 through G7	10,219	10,219	—	

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011 (continued)</u>				
Total increased direct costs, G1 through G7	36,943	10,219	(26,724)	
Indirect costs	1,415	391	(1,024)	Finding 1
Total program costs	<u>\$ 38,358</u>	10,610	<u>\$ (27,748)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 10,610</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct Costs				
Component activities G1 through G3:				
Salaries and benefits	\$ 25,175	\$ 25,175	\$ —	
Contract services	743	743	—	
Subtotal	25,918	25,918	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(159,277)	(159,277)	Finding 1
Subtotal	25,918	(133,359)	(159,277)	
Adjustment to eliminate negative balance	—	133,359	133,359	
Increased direct costs, G1 through G3	25,918	—	(25,918)	
Component activities G4 through G7:				
Contract services	3,501	3,501	—	
Increased direct costs, G4 through G7	3,501	3,501	—	
Total increased direct costs, G1 through G7	29,419	3,501	(25,918)	
Indirect costs	1,606	191	(1,415)	Finding 1
Total program costs	<u>\$ 31,025</u>	3,692	<u>\$ (27,333)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 3,692</u>		
<u>Summary: July 1, 2009, through June 30, 2012</u>				
Total increased direct costs, G1 through G7	\$ 199,423	\$ 76,541	\$ (122,882)	
Indirect costs	6,956	3,220	(3,736)	
Total program costs	<u>\$ 206,379</u>	79,761	<u>\$ (126,618)</u>	
Less amount paid by the State		(10,723)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 69,038</u>		

¹ See Attachment 2, Findings and Recommendations.

Attachment 2— Findings and Recommendations July 1, 2009, 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, 2009, 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; 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 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 [FY] 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 (SCO) issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

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

The district did not report any Winton Act direct costs on its mandated cost claims for FY 2009-10 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 \$463,881 for the review period. Unallowable related indirect costs total \$5,390.

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

	Fiscal Year			Total
	2009-10	2010-11	2011-12	
Winton Act base-year costs, FY 1995-96	\$ (33,617)	\$ (33,617)	\$ (33,617)	
Implicit price deflator (IPD)	× 4.478	× 4.583	× 4.738	
Winton Act base-year costs adjusted by the IPD	(150,537)	(154,067)	(159,277)	(463,881)
Less: reported Winton Act base-year costs	-	-	-	-
Unreported Winton Act base-year costs adjusted by the IPD	(150,537)	(154,067)	(159,277)	(463,881)
Related indirect cost adjustment	(2,951)	(1,024)	(1,415)	(5,390)
Review adjustment	\$ (153,488)	\$ (155,091)	\$ (160,692)	\$ (469,271)

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 SCO’s 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 2009-10, resulting in an understatement of \$1,654. 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; these instructions 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 <u>2009-10</u>
Allowable contract services	\$ 39,382
Claimed indirect cost rate	<u>4.20%</u>
Review adjustment	<u>\$ 1,654</u>

Recommendation

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