



JOHN CHIANG
California State Controller

November 7, 2013

Ron Carruth, Ed.D., Superintendent
Whittier City School District
7211 Whittier Avenue
Whittier, CA 90602

Dear Dr. Carruth:

The State Controller's Office reviewed the costs claimed by Whittier City 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, 2009; and July 1, 2011, through June 30, 2012. We did not review the costs claimed for the period of July 1, 2009, through June 30, 2010, because the amount claimed was immaterial. In addition, the district did not file a reimbursement claim for the period of July 1, 2010, through June 30, 2011. 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 \$65,663 for the mandated program. Our review found that \$5,358 is allowable and \$60,305 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 Jon McNeil, Assistant Superintendent of Business Services, of the review adjustment via email on October 28, 2013. We did not receive a response from the district.

For the fiscal year (FY) 2008-09 claim, the State paid the district \$5,526. Our review found that \$475 is allowable. The State will offset \$5,051 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2011-12 claim, the State made no payment to the district. Our review found that \$4,883 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/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

Attachments

RE: S14-MCC-927

cc: Jon McNeil, Assistant Superintendent of Business Services
Whittier City School District
Maricela Barba, Director of Fiscal Services
Whittier City School District
Arturo Delgado, Ed.D., County Superintendent of Schools
Los Angeles 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, 2008, through June 30, 2009;
and July 1, 2011, through June 30, 2012**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustments	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 49,260	\$ 49,260	\$ —	
Materials and supplies	10	10	—	
Contract services	4,027	4,027	—	
Subtotal	53,297	53,297	—	
Less base-year direct costs adjusted by the implicit price deflator	(11,613)	(64,761)	(53,148)	Finding 1
Subtotal	41,684	(11,464)	(53,148)	
Adjustment to eliminate negative balance	—	11,464	11,464	
Increased direct costs, G1 through G3	41,684	—	(41,684)	
Component activities G4 through G7:				
Salaries and benefits	446	446	—	
Increased direct costs, G4 through G7	446	446	—	
Total increased direct costs, G1 through G7	42,130	446	(41,684)	
Indirect costs	2,492	29	(2,463)	Findings 1, 2
Total program costs	\$ 44,622	475	\$ (44,147)	
Less amount paid by the State		(5,526)		
Allowable costs claimed in excess of (less than) amount paid		\$ (5,051)		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 8,126	\$ 8,126	\$ —	
Contract services	7,567	7,567	—	
Subtotal	15,693	15,693	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(69,279)	(69,279)	Finding 1
Subtotal	15,693	(53,586)	(69,279)	
Adjustment to eliminate negative balance	—	53,586	53,586	
Increased direct costs, G1 through G3	15,693	—	(15,693)	
Component activities G4 through G7:				
Contract services	4,743	4,743	—	
Increased direct costs, G4 through G7	4,743	4,743	—	
Total increased direct costs, G1 through G7	20,436	4,743	(15,693)	
Indirect costs	605	140	(465)	Finding 1
Total program costs	\$ 21,041	4,883	\$ (16,158)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 4,883		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustments	Reference ¹
<u>Summary: July 1, 2008, through June 30, 2009; and July 1, 2011, through June 30, 2012</u>				
Total increased direct costs, G1 through G7	\$ 62,566	\$ 5,189	\$ (57,377)	
Indirect costs	3,097	169	(2,928)	
Total program costs	<u>\$ 65,663</u>	5,358	<u>\$ (60,305)</u>	
Less amount paid by the State		(5,526)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (168)</u>		

¹ See Attachment 2, Findings and Recommendations.

Attachment 2— Findings and Recommendations July 1, 2008, through June 30, 2009; and July 1, 2011, 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, 2008, through June 30, 2009; and July 1, 2011, 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. This 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 issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

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

The district understated the Winton Act direct costs on its mandated cost claims for FY 2008-09 and FY 2011-12. Specifically, the district did not offset the entire Winton Act base-year costs against the current-year Rodda Act costs for components G1 through G3 for FY 2008-09, and did not offset any Winton Act base-year costs against the current-year Rodda Act costs for components G1 through G3 for FY 2011-12. As a result, the district understated the Winton Act base-year costs by \$122,427 for the review period. Unallowable related indirect costs total \$3,191.

The following table summarizes the understated Winton Act base-year costs by fiscal year for the review period:

	Fiscal Year		Total
	2008-09	2011-12	
Winton Act base-year costs, FY 1995-96	\$ (14,622)	\$ (14,622)	
Implicit price deflator (IPD)	x 4.429	x 4.738	
Winton Act base-year costs adjusted by the IPD	(64,761)	(69,279)	(134,040)
Less reported Winton Act base-year costs	(11,613)	-	(11,613)
Unreported Winton Act base-year costs adjusted by the IPD	(53,148)	(69,279)	(122,427)
Related indirect cost adjustment	(2,726)	(465)	(3,191)
Review adjustment	\$ (55,874)	\$ (69,744)	\$ (125,618)

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 costs claimed.

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

The district did not claim indirect costs on contract services for FY 2008-09, resulting in an understatement of \$263. 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:

	<u>Fiscal Year</u> <u>2008-09</u>
Allowable contract services	\$ 4,027
Claimed indirect cost rate	<u>6.54%</u>
Review adjustment	<u>\$ 263</u>

Recommendation

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