

SAN DIEGO COMMUNITY COLLEGE DISTRICT

Audit Report

COLLECTIVE BARGAINING PROGRAM

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

July 1, 2000, through June 30, 2002



STEVE WESTLY
California State Controller

October 2004



STEVE WESTLY
California State Controller

October 15, 2004

Augustine P. Gallego, Chancellor
San Diego Community College District
3375 Camino Del Rio South
San Diego, CA 92108

Dear Mr. Gallego:

The State Controller's Office audited the claims filed by the San Diego Community College District for costs of the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2000, through June 30, 2002.

The district claimed \$649,001 for the mandated program. Our audit disclosed that \$637,456 is allowable and \$11,545 is unallowable. The unallowable costs occurred primarily because the district overstated indirect costs, salaries, and benefits. The State paid the district \$344,161. The State will pay allowable costs claimed that exceed the amount paid, totaling \$293,295, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). 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 COSM's website at www.csm.ca.gov (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at csminfo@csm.ca.gov.

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

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:JVB/jj

cc: (See page 2)

cc: Wayne Murphy

Assistant Chancellor–Human Resources
San Diego Community College District
Ed Monroe, Program Assistant
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Chancellor’s Office
California Community Colleges
Jeannie Oropeza, Program Budget Manager
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Audit Report

Summary

The State Controller's Office (SCO) audited the claims filed by the San Diego Community College District for costs of the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2000, through June 30, 2002. The last day of fieldwork was December 3, 2003.

The district claimed \$649,001 for the mandated program. Our audit disclosed that \$637,456 is allowable and \$11,545 is unallowable. The unallowable costs occurred primarily because the district overstated indirect costs, salaries, and benefits. The State paid the district \$344,161. The State will pay allowable costs claimed that exceed the amount paid, totaling \$293,295, 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 of public school employers. The legislation created the Public Employees 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 [COSM]) ruled that the Rodda Act imposed a state mandate upon school districts reimbursable under *Government Code* Section 17561. Costs in excess of those established by the base year (fiscal year 1974-75), as adjusted by an Implicit Price Deflator (increased costs) are reimbursable.

In 1991, the State enacted Chapter 1213, Statutes of 1991, requiring that school districts publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding. On August 20, 1998, COSM ruled that this legislation imposed a state mandate upon school districts reimbursable under *Government Code* Section 17561. The costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Parameters and Guidelines, adopted by COSM on October 22, 1980 (and last amended on August 20, 1998), establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement, to assist school districts in claiming reimbursable costs.

**Objective,
Scope, and
Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2000, through June 30, 2002.

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

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

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

The audit disclosed 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, the San Diego Community College District claimed \$649,001 for costs of the Collective Bargaining Program. The audit disclosed that \$637,456 is allowable and \$11,545 is unallowable.

For fiscal year (FY) 2000-01, the district was paid \$344,161 by the State. The audit disclosed that \$354,058 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$9,897, contingent upon available appropriations.

For FY 2001-02, the district was not paid by the State. The audit disclosed that \$283,398 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$283,398, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on August 6, 2004. John J. Schlegel, Assistant Chancellor, Business Services, responded by letter dated August 31, 2004, agreeing with the audit results except for Finding 3. The final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the San Diego Community College District, the California Department of Education, the California Community Colleges Chancellor's Office, 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
Chief, Division of Audits

**Schedule 1—
Summary of Program Costs
July 1, 2000, through June 30, 2002**

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustments | Reference ¹ |
|--|-------------------------|------------------------|----------------------|------------------------|
| July 1, 2000, through June 30, 2001 | | | | |
| Component activities G1 through G3: | | | | |
| Salaries and benefits | \$ 162,548 | \$ 162,548 | \$ — | |
| Materials and supplies | 3,494 | 3,494 | — | |
| Travel | 3,652 | 3,652 | — | |
| Contracted services | <u>12,836</u> | <u>12,836</u> | <u>—</u> | |
| Subtotals | 182,530 | 182,530 | — | |
| Less adjusted base-year direct costs | <u>(9,525)</u> | <u>(9,525)</u> | <u>—</u> | |
| Total increased direct costs, G1 through G3 | <u>173,005</u> | <u>173,005</u> | <u>—</u> | |
| Component activities G4 through G7: | | | | |
| Salaries and benefits | 54,553 | 54,553 | — | |
| Materials and supplies | 472 | 472 | — | |
| Travel | 4,668 | 4,668 | — | |
| Contracted services | <u>25,876</u> | <u>25,876</u> | <u>—</u> | |
| Total increased direct costs, G4 through G7 | <u>85,569</u> | <u>85,569</u> | <u>—</u> | |
| Total increased direct costs, G1 through G7 | 258,574 | 258,574 | — | |
| Indirect costs | <u>101,136</u> | <u>95,484</u> | <u>(5,652)</u> | Finding 3 |
| Total program costs | <u>\$ 359,710</u> | 354,058 | <u>\$ (5,652)</u> | |
| Less amount paid by the State | | <u>(344,161)</u> | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 9,897</u> | | |
| July 1, 2001, through June 30, 2002 | | | | |
| Component activities G1 through G3: | | | | |
| Salaries and benefits | \$ 154,836 | \$ 153,148 | \$ (1,688) | Finding 1 |
| Materials and supplies | 2,040 | 2,040 | — | |
| Travel | 3,426 | 3,426 | — | |
| Contracted services | <u>17,717</u> | <u>17,717</u> | <u>—</u> | |
| Subtotals | 178,019 | 176,331 | (1,688) | |
| Less adjusted base-year direct costs | <u>(9,525)</u> | <u>(9,660)</u> | <u>(135)</u> | Finding 2 |
| Total increased direct costs, G1 through G3 | <u>168,494</u> | <u>166,671</u> | <u>(1,823)</u> | |
| Component activities G4 through G7: | | | | |
| Salaries and benefits | 22,076 | 22,076 | — | |
| Materials and supplies | 1,206 | 1,206 | — | |
| Travel | 352 | 352 | — | |
| Contracted services | <u>16,934</u> | <u>16,934</u> | <u>—</u> | |
| Total increased direct costs, G4 through G7 | <u>40,568</u> | <u>40,568</u> | <u>—</u> | |

Schedule 1 (continued)

| <u>Cost Elements</u> | <u>Actual Costs Claimed</u> | <u>Allowable per Audit</u> | <u>Audit Adjustments</u> | <u>Reference¹</u> |
|--|---------------------------------|--------------------------------|------------------------------|------------------------------|
| <u>July 1, 2001, through June 30, 2002 (continued)</u> | | | | |
| Total increased direct costs, G1 through G7 | 209,062 | 207,239 | (1,823) | Findings 1, 2 |
| Indirect costs | <u>80,229</u> | <u>76,159</u> | <u>(4,070)</u> | Findings 1, 2, 3 |
| Total program costs | <u>\$ 289,291</u> | 283,398 | <u>\$ (5,893)</u> | |
| Less amount paid by the State | | <u>—</u> | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 283,398</u> | | |
| <u>Summary: July 1, 2000, through June 30, 2002</u> | | | | |
| Total increased direct costs, G1 through G7 | \$ 467,636 | \$ 465,813 | \$ (1,823) | Findings 1, 2 |
| Indirect costs | <u>181,365</u> | <u>171,643</u> | <u>(9,722)</u> | Findings 1, 2, 3 |
| Total program costs | <u>\$ 649,001</u> | 637,456 | <u>\$ (11,545)</u> | |
| Less amount paid by the State | | <u>(344,161)</u> | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 293,295</u> | | |

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unsupported salaries, benefits, and related indirect costs

The district did not provide documentation to adequately support \$1,688 in salary and benefit costs claimed for FY 2001-02. The documentation used to support salary and benefit costs for one employee was an estimate of time covering the entire fiscal year. The related indirect cost totals \$777.

Parameters and Guidelines states that the district should describe the mandated functions performed by each employee and specify the actual time spent.

Parameters and Guidelines states that source documents required to be maintained by the claimant may include, but are not limited to, employee time records that show the employee's actual time spent on this mandate.

Recommendation

We recommend that the district implement policies and procedures to ensure that all claimed costs are eligible and properly supported.

District's Response

The San Diego Community College District accepts finding number one, Unsupported salaries, benefits and related costs (and related indirect) totaling \$2,465. We will implement policies and procedures to ensure that all claimed costs are eligible and properly supported.

SCO's Comment

The district agrees with the finding and recommendation.

FINDING 2— Overstated base year costs

The district overstated its base year costs in the amount of \$135 by using the incorrect implicit price deflator (IPD) for its FY 2001-02 Collective Bargaining Program claim. The district used the IPD assigned to FY 2000-01. The district used an IPD of 3.174 instead of 3.219 to calculate 1974-75 Base Year Winton Act costs on the FY 2001-02 claim. The related indirect cost totals \$62.

Parameters and Guidelines states that determination of increased costs for each of these components requires the cost of current year Rodda Act activities to be offset (reduced) by the cost of the base year Winton Act activities, which is generally FY 1974-75.

Parameters and Guidelines states that Winton Act base year costs are adjusted by the IPD, identified in the claiming instructions, prior to the offset against the current year Rodda Act costs for claim components 6A, 6B, and 6C.

Recommendation

We recommend that the district implement policies and procedures to ensure that the current implicit price deflator is used to prepare mandated cost claims for each fiscal year.

District's Response

The San Diego Community College District accepts finding number two, Overstated base year (and related indirect) totaling \$197. We will implement policies and procedures to ensure that the current implicit price deflator is used to prepare mandated cost claims.

SCO's Comment

The district agrees with the finding and recommendation.

**FINDING 3—
Overstated indirect
costs**

The district overstated indirect costs by \$8,883 for the audit period.

The overstatement occurred because the district improperly applied its claimed indirect cost rate to direct material, supply, and travel costs. The district used an indirect cost rate of 46% based upon Office of Management and Budget (OMB) Circular A-21 and approved by the U.S. Department of Health and Human Services. The approval letter, dated November 10, 1999, indicated that the district's indirect cost rate used a base consisting of direct salaries and benefits. During the audit period, the district improperly applied the indirect cost rate to direct material, supply, and travel costs as follows:

| | Fiscal Year | | Total |
|---------------------------|-----------------|-----------------|-----------------|
| | 2000-01 | 2001-02 | |
| Material and supply costs | \$ 3,966 | \$ 3,246 | \$ 7,212 |
| Travel costs | 8,320 | 3,778 | 12,098 |
| Totals | 12,286 | 7,024 | 19,310 |
| Indirect cost rate | × 46% | × 46% | × 46% |
| Audit adjustment | <u>\$ 5,652</u> | <u>\$ 3,231</u> | <u>\$ 8,883</u> |

Parameters and Guidelines states that indirect costs may be claimed in the manner described in the SCO claiming instructions. The SCO claiming instructions state that community college districts must obtain federal approval for an indirect cost rate proposal (ICRP) prepared in accordance with OMB Circular A-21.

OMB Circular A-21 methodology allows colleges and universities to calculate their indirect cost rate under the simplified method, using either salaries and wages or modified total direct costs. The district's indirect cost rate was proposed and negotiated based on salaries and wages excluding other fringe benefits, not on modified total direct costs. The appropriate rate application base is shown on the rate agreement. The district must adhere to their rate agreement in claiming reimbursement of indirect costs.

The SCO *Mandated Cost Manual* states that indirect costs must be distributed to benefiting cost objectives on bases, which produce an equitable result in relation to the benefits derived by the mandate.

Recommendation

We recommend that the district implement policies and procedures to ensure that the A-21 indirect cost rate is applied only to the costs the district included in the base of the indirect cost rate calculation.

District's Response

The San Diego Community College District does not accept finding number three, Overstated indirect costs totaling \$8,883. This finding, being the most significant of the three, was not discussed or introduced at the exit interview were [sic] details could have been reviewed. My position is based upon the following facts:

1. The Department of Health and Human Services (DHHS) has reviewed and approved the District's indirect rate which includes materials, supplies and travel.
2. The above DHHS indirect rate formula is consistent with the State Controller's Office FAM-29C computation. Whereby the "objective of this computation is to equitably allocate administrative support costs to personnel that perform the mandated cost activities claimed by the college." (pg. 10 of SCO Mandated Cost Manual)
3. The District maintains collective bargaining agreements for its contract military program were [sic] District employees must travel to cities in Hawaii, Illinois, Florida, Texas, Connecticut, Mississippi and Virginia.

After discussion with Mr. Brett Bell (primary responsible party for report content) I am not in a position to accept finding number three (mandated indirect costs totaling \$8,883). The San Diego Community College District has justified the application of its indirect rate to material, supply and travel expenses. This position is consistent with A-21 principles and the State Controller's Office direction to produce an equitable result in relation to the benefits derived by the mandate. Your support and understanding is appreciated.

SCO's Comment

The finding remains unchanged.

This finding was discovered after the exit conference, but prior to the issuance of the draft report. Our auditor discussed the details of the finding with the district's financial analyst on May 19, 20, and 21, 2004.

The district received an Indirect Cost Negotiation Agreement from the U.S. Department of Health and Human Services. The agreement did not indicate which method was used to calculate the approved OMB Circular A-21 rate, although the district stated that the rate was developed using the "simplified method." Under this method, OMB Circular A-21 states

that an institution may use either salaries and wages or modified total direct costs as a distribution base. The district contends that the base used was modified total direct costs.

Mr. Wallace Chan, Branch Chief, U.S. Department of Health and Human Services, stated via e-mail on May 21, 2004, that the district's OMB Circular A-21 rate was negotiated based on salaries and wages, excluding other fringe benefits. Mr. Chan also stated that the OMB Circular A-21 rate was not negotiated on modified total direct costs. We provided the district with a copy of Mr. Chan's e-mail and received no response indicating that he was incorrect.

We agree that the "objective" of the OMB Circular A-21 rate calculation is the same as the calculation using SCO's FAM-29C methodology. However, there are certain items of cost included in an OMB Circular A-21 rate calculation that are not included in a FAM-29C calculation. The district did not complete a FAM-29C computation.

**Attachment—
District’s Response to
Draft Audit Report**

The San Diego Community College District

3375 Camino del Rio South, San Diego, CA 92108-3883 (619) 388-6500

CENTERS FOR EDUCATION AND TECHNOLOGY | CITY COLLEGE | MESA COLLEGE | MIRAMAR COLLEGE



Office of the Chancellor
(619) 388-6957

31 August 2004

Jim L. Spano, Chief
Compliance Audits Bureau
State Controller's Office, Division of Audits
PO Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano,

We would like to thank your office for its audit of the San Diego Community College District's Collective Bargaining Mandated Cost Claim. The process and resulting information will be valuable in our completion and submission of future claims.

The San Diego Community College District accepts finding number one, Unsupported salaries, benefits and related costs (and related indirect) totaling \$2,465. We will implement policies and procedures to ensure that all claimed costs are eligible and properly supported.

The San Diego Community College District accepts finding number two, Overstated base year (and related indirect) totaling \$197. We will implement policies and procedures to ensure that the current implicit price deflator is used to prepare mandated cost claims.

The San Diego Community College District does not accept finding number three, Overstated indirect costs totaling \$8,883. This finding, being the most significant of the three, was not discussed or introduced at the exit interview were details could have been reviewed. My position is based upon the following facts:

1. The Department of Health and Human Services (DHHS) has reviewed and approved the District's indirect rate which includes materials, supplies and travel.
2. The above DHHS indirect rate formula is consistent with the State Controller's Office FAM-29C computation. Whereby the "objective of this computation is to equitably allocate administrative support costs to personnel that perform the mandated cost activities claimed by the college." (pg. 10 of SCO Mandated Cost Manual)
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After discussion with Mr. Brett Bell (primary responsible party for report content) I am not in a position to accept finding number three (mandated indirect costs totaling \$8,883). The San Diego Community College District has justified the application of its indirect rate to material, supply and travel expenses. This position is consistent with A-21 principles and the State Controller's Office direction to produce an equitable result in relation to the benefits derived by the mandate. Your support and understanding is appreciated.

Sincerely,

John J. Schlegel, Assistant Chancellor
Business Services

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