

IMPERIAL COUNTY

Audit Report

PESTICIDE USE REPORTS PROGRAM

Chapter 1200, Statutes of 1989

July 1, 1997, through June 30, 2001



STEVE WESTLY
California State Controller

June 2003



STEVE WESTLY
California State Controller

June 25, 2003

The Honorable Douglas R. Newland
Auditor-Controller
Imperial County
940 Main Street, Suite 108
El Centro, CA 92243-2873

Dear Mr. Newland:

The State Controller's Office (SCO) has completed an audit of the claims filed by Imperial County for costs of the legislatively mandated Pesticide Use Reports Program (Chapter 1200, Statutes of 1989) for the period of July 1, 1997, through June 30, 2001.

The county claimed and was paid \$460,798 for the mandated program. Our audit disclosed that \$139,538 is allowable and \$321,260 is unallowable. The unallowable costs occurred because the county claimed unsupported costs and understated claimed revenue offsets. The amount paid in excess of allowable costs claimed, totaling \$321,260, should be returned to the State.

The SCO has established an informal audit review process to resolve a dispute of facts. The auditee should submit, in writing, a request for a review and all information pertinent to the disputed issues within 60 days after receiving the final report. The request and supporting documentation should be submitted to: Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001.

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

Sincerely,

Original signed by

WALTER BARNES
Chief Deputy State Controller, Finance

WB:ams/jj

cc: Stephen L. Birdsall
Agricultural Commissioner
Imperial County
Calvin Smith, Program Budget Manager
Corrections and General Government

Department of Finance

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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Imperial County for costs of the legislatively mandated Pesticide Use Reports Program (Chapter 1200, Statutes of 1989) for the period of July 1, 1997, through June 30, 2001. The last day of fieldwork was October 23, 2002.

The county claimed and was paid \$460,798 for the mandated program. The audit disclosed that \$139,538 is allowable and \$321,260 is unallowable. The unallowable costs occurred because the county claimed unsupported costs and understated claimed revenue offsets. Consequently, the amount paid in excess of allowable costs claimed, totaling \$321,260, should be returned to the State.

Background

Chapter 1200, Statutes of 1989, added *Food and Agricultural Code* Section 12979 and its implementing regulations in Title 3, *California Code of Regulations*. This legislation requires increased pesticide reporting requirements by pesticide users, which includes all agricultural users, and increases recordkeeping requirements by pesticide dealers that are licensed by the State. It also requires county agricultural commissioners to issue operator site identification numbers to specified persons, inspect and audit certain records, and file the newly-required pesticide use reports with the State. On November 19, 1992, the Commission on State Mandates determined that Chapter 1200, Statutes of 1989, resulted in state mandated costs that are reimbursable pursuant to Title 2, Division 4, Part 7, of the *Government Code*.

Parameters and Guidelines, adopted by the Commission on State Mandates, establishes state mandates 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 local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

The objective of the audit was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Pesticide Use Reports Program (Chapter 1200, Statutes of 1989), for the period of July 1, 1997, through June 30, 2001.

The auditor performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the county's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the county's management controls was limited 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 Findings and Recommendations section of this report and in the accompanying Summary of Program Costs (Schedule 1).

For the audit period, Imperial County claimed and was paid \$460,798 for costs of the legislatively mandated Pesticide Use Reports Program. The audit disclosed that \$139,538 is allowable and \$321,260 is unallowable.

For fiscal year (FY) 1997-98, the county was paid \$155,877 by the State. The audit disclosed that \$29,322 is allowable. The amount paid in excess of allowable costs claimed, totaling \$126,555, should be returned to the State.

For FY 1998-99, the county was paid \$140,776 by the State. The audit disclosed that \$5,062 is allowable. The amount paid in excess of allowable costs claimed, totaling \$135,714, should be returned to the State.

For FY 1999-2000, the county was paid \$89,293 by the State. The audit disclosed that \$47,571 is allowable. The amount paid in excess of allowable costs claimed, totaling \$41,722, should be returned to the State.

For FY 2000-01, the county was paid \$74,852 by the State. The audit disclosed that \$57,583 is allowable. The amount paid in excess of allowable costs claimed, totaling \$17,269, should be returned to the State.

Views of Responsible Officials

The SCO issued a draft audit report on March 14, 2003. Douglas R. Newland, County Auditor-Controller, and Stephen L. Birdsall, County Agricultural Commissioner, responded by the attached letter dated May 12, 2003. The county agrees with the audit results presented in Findings 1 and 2, which were revised from the draft report based on additional information the county provided. However, the county disagrees with the audit results presented in Finding 3. The county's response is included in this final audit report (Attachment).

Restricted Use

This report is solely for the information and use of Imperial County 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

Findings and Recommendations

FINDING 1— Unsupported labor costs claimed

The county claimed labor costs using productive hourly salary and fringe benefit rates that were not supported by its payroll records. In some cases, it appeared that claimed salary rates were based on the highest salary step of employee classifications when the employees performing the work were actually paid at a lower step. Also, it appeared that some clerical errors were made in entering labor rates on the claims.

Parameters and Guidelines for the mandated program specifies that only actual increased costs incurred in the performance of the mandated activities and supported by appropriate documentation are reimbursable.

As a result, claimed labor costs have been adjusted to actual costs as follows:

	Audit Adjustment				
	Fiscal Year				Total
	1997-98	1998-99	1999-2000	2000-01	
Issuing ID numbers	\$(12,811)	\$(15,839)	\$ 3,114	\$ 1,980	\$(23,556)
Reviewing and filing with DPR	(5,649)	(7,194)	(3,184)	743	(15,284)
Auditing and inspecting records	(1,779)	(2,457)	4,132	28	(76)
Totals	<u>\$(20,239)</u>	<u>\$(25,490)</u>	<u>\$ 4,062</u>	<u>\$ 2,751</u>	<u>\$(38,916)</u>

Recommendation

The county should ensure that all costs claimed are eligible increased costs incurred as a result of the mandate, and are supported by its accounting records.

Auditee's Response

The county submitted additional information in support of \$8,179 of additional allowable labor costs.

SCO's Comment

The SCO reviewed and accepted the county's additional information. Accordingly, the audit adjustment has been reduced by \$8,179, from \$47,095 to \$38,916.

**FINDING 2—
Unsupported
indirect costs
claimed**

Indirect costs claimed were not supported by the indirect cost rate computation prepared by the county Auditor-Controller's Office or by the indirect cost rate computation prepared by the county Agricultural Commissioner's Office as part of its Annual Financial Statement submitted to the California Department of Food and Agriculture (CDFA). The Annual Financial Statement is the basis for most state funding of the county's agricultural programs from CDFA and the Department of Pesticide Regulation (DPR). The indirect costs claimed were based on a computation that did not account for all departmental salaries, and classified a substantial amount of costs as indirect costs that should have been classified as direct charges to other programs.

Parameters and Guidelines and the SCO's claiming instructions require the county, when claiming an indirect cost rate exceeding 10%, to submit with its claim a departmental indirect cost rate proposal prepared in accordance with federal Office of Management and Budget (OMB) Circular A-87 (*Cost Principles for State, Local, and Indian Tribal Governments*). OMB Circular A-87 specifies that indirect costs are allowable only when costs cannot reasonably be identified to a particular program, and are allocated to each program relative to the benefits received. Furthermore, costs must be consistent with policies that apply uniformly to all programs.

The SCO auditor has allowed the rate documented by the county Auditor-Controller's Office, and has adjusted claimed costs as follows:

	Audit Adjustment				Total
	Fiscal Year				
	1997-98	1998-99	1999-2000	2000-01	
Indirect costs claimed	\$ 57,270	\$ 27,104	\$ 15,288	\$ 22,046	\$ 121,708
Indirect costs allowed	(19,147)	(21,251)	(19,033)	(19,781)	(79,212)
Adjustment	<u>\$(38,123)</u>	<u>\$(5,853)</u>	<u>\$ 3,745</u>	<u>\$(2,265)</u>	<u>\$(42,496)</u>

Recommendation

The county should ensure that indirect costs claimed are supported by an acceptable indirect cost rate proposal prepared in accordance with OMB Circular A-87.

Auditee's Response

The county submitted additional information in support of \$1,759 of additional allowable indirect costs.

SCO's Comment

The SCO reviewed and accepted the county's additional information. Accordingly, the audit adjustment has been reduced by \$1,759, from \$44,255 to \$42,496.

**FINDING 3—
Revenue offsets
understated**

The county understated revenues allocable to the mandate that are required to be deducted on its claims. The county received revenues from the following sources:

- Unclaimed gas tax allotment: These state funds are allocated to counties under the *Food and Agricultural Code* to help fund all of the activities carried out by the county Agricultural Commissioner's Office. The county did not offset any of these revenues on its claims because it believed this revenue was not allocable to the mandate.
- Mill tax assessment: These state funds are allocated to counties by DPR to help fund county pesticide use enforcement costs within the county Agricultural Commissioner's Office. The county understated these revenues because it used the ratio of restricted to unrestricted application reporting costs rather than the ratio of pesticide use reporting costs to total pesticide use enforcement costs.
- Memorandum of understanding: These state funds are allocated by DPR to counties under the *Food and Agricultural Code* to help fund the county's mandated activities. The county did not offset any of these revenues on its claims. It appears the county was unsure of the nature of these revenues.
- DPR pesticide application reporting contract: DPR reimburses the county \$0.30 per line for electronically submitting to DPR information on each application of restricted and unrestricted pesticides within the county. The county correctly offset these revenues on its claims.

Parameters and Guidelines specifies that any offsetting savings or reimbursements received by the county from any source as a result of this mandate shall be identified and deducted so only net county costs are claimed.

As a result, claimed revenue offsets have been adjusted as follows:

	<u>Amount Claimed</u>	<u>Amount per Audit</u>	<u>Audit Adjustments</u>
Fiscal Year 1997-98:			
Unclaimed gas tax allotment	\$ —	\$ 13,749	\$ (13,749)
Mill tax assessment	5,599	28,018	(22,419)
Memorandum of understanding	—	32,025	(32,025)
DPR pesticide application reporting contract	5,088	5,088	—
Totals, FY 1997-98	<u>10,687</u>	<u>78,880</u>	<u>(68,193)</u>
Fiscal Year 1998-99:			
Unclaimed gas tax allotment	—	26,002	(26,002)
Mill tax assessment	5,562	30,556	(24,994)
Memorandum of understanding	—	53,375	(53,375)
DPR pesticide application reporting contract	5,097	5,097	—
Totals, FY 1998-99	<u>10,659</u>	<u>115,030</u>	<u>(104,371)</u>

	Amount Claimed	Amount per Audit	Audit Adjustments
Fiscal Year 1999-2000:			
Unclaimed gas tax allotment	—	20,731	(20,731)
Mill tax assessment	5,400	34,198	(28,798)
Memorandum of understanding	—	—	—
DPR pesticide application reporting contract	5,058	5,058	—
Totals, FY 1999-2000	<u>10,458</u>	<u>59,987</u>	<u>(49,529)</u>
Fiscal Year 2000-01:			
Unclaimed gas tax allotment	—	16,577	(16,577)
Mill tax assessment	30,784	31,962	(1,178)
Memorandum of understanding	—	—	—
DPR pesticide application reporting contract	5,665	5,665	—
Totals, FY 2000-01	<u>36,449</u>	<u>54,204</u>	<u>(17,755)</u>
Totals	<u>\$ 68,253</u>	<u>\$ 308,101</u>	<u>\$(239,848)</u>

Recommendation

The county should ensure that all applicable revenues are offset on its claims against its mandated program costs.

Auditee's Response

The county disagreed that unclaimed gas tax allotment revenues should be offset on its claims. It stated that there is no mention in any Commission on State Mandates pronouncements regarding the offsetting of these revenues. Further, it contended that this revenue source would be unaffected if the mandate were eliminated.

SCO's Comment

The SCO disagrees with the county's contention. Unclaimed gas tax allotment revenues are allocated by the state Department of Food and Agriculture based on total agricultural program costs reported by counties statewide. When a county reports its mandated costs within total agricultural program costs, as did Imperial County, it increases the county's share of statewide revenue allocations.

Allowable labor and indirect costs have been increased above due to information provided by the county. As a result, required revenue offsets have been adjusted by \$4,674, from \$235,174 to \$239,848.

**Schedule 1—
Summary of Program Costs
July 1, 1997, through June 30, 2001**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1997, through June 30, 1998</u>				
Direct costs:				
Issuing ID number	\$ 79,686	\$ 66,875	\$ (12,811)	
Reviewing and filing with DPR	14,961	9,312	(5,649)	
Auditing and inspecting records	<u>14,647</u>	<u>12,868</u>	<u>(1,779)</u>	
Total direct costs	109,294	89,055	(20,239)	Finding 1
Indirect costs	<u>57,270</u>	<u>19,147</u>	<u>(38,123)</u>	Finding 2
Total costs	166,564	108,202	(58,362)	
Less offsetting revenues	<u>(10,687)</u>	<u>(78,880)</u>	<u>(68,193)</u>	Finding 3
Net costs	<u>\$ 155,877</u>	29,322	<u>\$ (126,555)</u>	
Less amount paid by the State		<u>(155,877)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (126,555)</u>		
<u>July 1, 1998, through June 30, 1999</u>				
Direct costs:				
Issuing ID number	\$ 87,725	\$ 71,886	\$ (15,839)	
Reviewing and filing with DPR	17,849	10,655	(7,194)	
Auditing and inspecting records	<u>18,757</u>	<u>16,300</u>	<u>(2,457)</u>	
Total direct costs	124,331	98,841	(25,490)	Finding 1
Indirect costs	<u>27,104</u>	<u>21,251</u>	<u>(5,853)</u>	Finding 2
Total costs	151,435	120,092	(31,343)	
Less offsetting revenues	<u>(10,659)</u>	<u>(115,030)</u>	<u>(104,371)</u>	Finding 3
Net costs	<u>\$ 140,776</u>	5,062	<u>\$ (135,714)</u>	
Less amount paid by the State		<u>(140,776)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (135,714)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Issuing ID number	\$ 67,374	\$ 70,488	\$ 3,114	
Reviewing and filing with DPR	8,044	4,860	(3,184)	
Auditing and inspecting records	<u>9,045</u>	<u>13,177</u>	<u>4,132</u>	
Total direct costs	84,463	88,525	4,062	Finding 1
Indirect costs	<u>15,288</u>	<u>19,033</u>	<u>3,745</u>	Finding 2

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1999, through June 30, 2000 (continued)</u>				
Total costs	99,751	107,558	7,807	
Less offsetting revenues	<u>(10,458)</u>	<u>(59,987)</u>	<u>(49,529)</u>	Finding 3
Net costs	<u>\$ 89,293</u>	47,571	<u>\$ (41,722)</u>	
Less amount paid by the State		<u>(89,293)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (41,722)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Issuing ID number	\$ 66,809	\$ 68,789	\$ 1,980	
Reviewing and filing with DPR	19,743	20,486	743	
Auditing and inspecting records	<u>2,703</u>	<u>2,731</u>	<u>28</u>	
Total direct costs	89,255	92,006	2,751	Finding 1
Indirect costs	<u>22,046</u>	<u>19,781</u>	<u>(2,265)</u>	Finding 2
Total costs	111,301	111,787	486	
Less offsetting revenues	<u>(36,449)</u>	<u>(54,204)</u>	<u>(17,755)</u>	Finding 3
Net costs	<u>\$ 74,852</u>	57,583	<u>\$ (17,269)</u>	
Less amount paid by the State		<u>(74,852)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (17,269)</u>		
<u>Summary: July 1, 1997, through June 30, 2001</u>				
Direct costs:				
Issuing ID number	\$ 301,594	\$ 278,038	\$ (23,556)	
Reviewing and filing with DPR	60,597	45,313	(15,284)	
Auditing and inspecting records	<u>45,152</u>	<u>45,076</u>	<u>(76)</u>	
Total direct costs	407,343	368,427	(38,916)	Finding 1
Indirect costs	<u>121,708</u>	<u>79,212</u>	<u>(42,496)</u>	Finding 2
Total costs	529,051	447,639	(81,412)	
Less offsetting revenues	<u>(68,253)</u>	<u>(308,101)</u>	<u>(239,848)</u>	Finding 3
Net costs	<u>\$ 460,798</u>	139,538	<u>\$(321,260)</u>	
Less amount paid by the State		<u>(460,798)</u>		
Total allowable costs claimed in excess of (less than) amount paid		<u>\$(321,260)</u>		

¹ See the Findings and Recommendations section.

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

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>