

# **SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT**

Revised Audit Report

## **COLLECTIVE BARGAINING PROGRAM**

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

*July 1, 2002, through June 30, 2005*



**JOHN CHIANG**  
California State Controller

November 2011



**JOHN CHIANG**  
*California State Controller*

November 16, 2011

Ronald J. Lind, President  
Board of Trustees  
San José/Evergreen Community College District  
4750 San Felipe Road  
San Jose, CA 95135-1599

Dear Mr. Lind:

The State Controller's Office audited the costs claimed by San José/Evergreen Community College 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, 2002, through June 30, 2005.

This revised final audit report supersedes our previous report dated April 23, 2008. We revised Finding 3 to exclude the audit adjustment of \$855 for related indirect costs calculated in Finding 4. We revised Finding 4 to correct an error in the indirect cost rate for fiscal year 2004-05 and the applicable direct cost base used for all fiscal years of the audit period. We also allowed indirect costs on contract services that had been excluded in the previous audit report. As a result of these revisions, allowable costs increased by \$28,668 for the audit period, from \$336,955 to \$365,623.

The district claimed \$775,329 for the mandated program. Our audit disclosed that \$365,623 is allowable and \$409,706 is unallowable. The costs are unallowable primarily because the district claimed costs that were ineligible for reimbursement. The State paid the district \$109,952. The State will pay allowable costs claimed that exceed the amount paid, totaling \$255,671, 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 (CSM) based on this revised final audit report. 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](http://www.csm.ca.gov/docs/IRCForm.pdf).

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

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/sk

cc: Rita Cepeda, Chancellor

San José/Evergreen Community College District  
Peter Fitzimmons, Interim Director of Fiscal Services  
San José/Evergreen Community College District  
Richard Su, Staff Accountant

San José/Evergreen Community College District  
Christine Atalig, Auditor  
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California Community Colleges Chancellor's Office  
Thomas Todd, Principal Program Budget Analyst  
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Department of Finance

Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

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## Revised Audit Report

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# Revised Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by San José/Evergreen Community College 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, 2002, through June 30, 2005.

The district claimed \$775,329 for the mandated program. Our audit disclosed that \$365,623 is allowable and \$409,706 is unallowable. The costs are unallowable primarily because the district claimed costs that were ineligible for reimbursement. The State paid the district \$109,952. The State will pay allowable costs that exceed the amount paid, totaling \$255,671, 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 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 relating 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, requiring school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding.

On August 20, 1998, CSM determined that this legislation also imposed a state mandate upon school districts reimbursable under Government Code section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For claim 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–Costs of negotiations
- G4–Impasse proceedings
- G5–Collective bargaining agreement disclosure
- G6–Contract administration
- G7–Unfair labor practice costs

The program’s parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted the parameters and guidelines on October 22, 1980, and last amended it on January 27, 2000. In compliance with Government Code section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and 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 for the period of July 1, 2002, through June 30, 2005.

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

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district’s financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objectives.

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**

Our 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, San José/Evergreen Community College District claimed \$775,329 for costs of the Collective Bargaining Program. Our audit disclosed that \$365,623 is allowable and \$409,706 is unallowable. The State paid the district \$109,952. The State will pay allowable costs claimed that exceed the amount paid, totaling \$255,671, contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft audit report on February 20, 2008. Ngoc Chim, Senior Accounting Technician, responded by e-mail dated March 24, 2008, agreeing with the audit results. In the e-mail, the district indicated that it would not be issuing a formal response and that we could issue the report as final. We issued a final audit report on April 23, 2008.

Subsequently, we revised Finding 3 to exclude unallowable indirect costs calculated in Finding 4 and revised Finding 4 to correctly calculate allowable indirect costs for FY 2002-03, FY 2003-04, and FY 2004-05. As a result, allowable costs increased by \$28,698, from \$336,955 to \$365,623.

We advised Richard Su, Staff Accountant, of the revisions on August 5, 2011. Mr. Su responded by e-mail on September 16, 2011, agreeing with the changes to the final report.

**Restricted Use**

This report is solely for the information and use of San José/Evergreen Community College District, 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

November 16, 2011

## Revised Schedule 1— Summary of Program Costs July 1, 2002, through June 30, 2005

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Component activities G1–G3:				
Salaries and benefits	\$ 149,727	\$ 43,651	\$ (106,076)	Finding 1
Materials and supplies	714	360	(354)	Finding 3
Travel and training	982	69	(913)	Finding 3
Contracted services	18,725	19,992	1,267	Finding 3
Subtotals, component activities G1–G3	170,148	64,072	(106,076)	
Less adjusted base-year direct costs	(15,384)	(15,384)	—	
Total increased direct costs, components G1–G3	154,764	48,688	(106,076)	
Component activities G4–G7:				
Salaries and benefits	40,274	40,146	(128)	Finding 1
Materials and supplies	39	—	(39)	Finding 3
Travel and training	126	31	(95)	Finding 3
Contracted services	6,979	7,113	134	Finding 3
Total increased direct costs, components G4–G7	47,418	47,290	(128)	
Total increased direct costs	202,182	95,978	(106,204)	
Indirect costs	28,060	15,395	(12,665)	Findings 1, 4
Total program costs	\$ 230,242	111,373	\$ (118,869)	
Less amount paid by the State		(107,025)		
Allowable costs claimed in excess of (less than) amount paid		\$ 4,348		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Component activities G1–G3:				
Salaries and benefits	\$ 189,005	\$ 47,220	\$ (141,785)	Finding 1
Travel and training	1,607	—	(1,607)	Finding 3
Contracted services	27,301	24,908	(2,393)	Findings 2, 3
Subtotals, components G1–G3	217,913	72,128	(145,785)	
Less adjusted base-year direct costs	(16,301)	(16,301)	—	
Total increased direct costs, components G1–G3	201,612	55,827	(145,785)	
Component activities G4–G7:				
Salaries and benefits	39,705	39,705	—	
Materials and supplies	18	—	(18)	Finding 3
Travel and training	83	83	—	
Contracted services	1,188	1,206	18	Finding 3
Total increased direct costs, components G4–G7	40,994	40,994	—	

## Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2003, through June 30, 2004 (continued)</u>				
Total increased direct costs	242,606	96,821	(145,785)	
Indirect costs	<u>32,685</u>	<u>14,843</u>	<u>(17,842)</u>	Findings 1, 4
Total program costs	<u>\$ 275,291</u>	111,664	<u>\$ (163,627)</u>	
Less amount paid by the State		<u>(2,927)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 108,737</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Component activities G1–G3:				
Salaries and benefits	\$ 183,271	\$ 49,045	\$ (134,226)	Finding 1
Travel and training	2,499	—	(2,499)	Finding 3
Contracted services	<u>39,312</u>	<u>41,811</u>	<u>2,499</u>	Finding 3
Subtotals	225,082	90,856	(134,226)	
Less adjusted base-year direct costs	<u>(17,032)</u>	<u>(17,032)</u>	<u>—</u>	
Total increased direct costs G1–G3	<u>208,050</u>	<u>73,824</u>	<u>(134,226)</u>	
Component activities G4–G7:				
Salaries and benefits	<u>30,988</u>	<u>30,988</u>	<u>—</u>	
Total increased direct costs, components G4–G7	<u>30,988</u>	<u>30,988</u>	<u>—</u>	
Total increased direct costs	239,038	104,812	(134,226)	
Indirect costs	<u>30,758</u>	<u>37,774</u>	<u>7,016</u>	Findings 1, 4
Total program costs	<u>\$ 269,796</u>	142,586	<u>\$ (127,210)</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 142,586</u>		
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Total increased direct costs	\$ 683,826	\$ 297,611	\$ (386,215)	
Indirect costs	<u>91,503</u>	<u>68,012</u>	<u>(23,491)</u>	
Total program costs	<u>\$ 775,329</u>	365,623	<u>\$ (409,706)</u>	
Less amount paid by the State		<u>(109,952)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 255,671</u>		

<sup>1</sup> See the Revised Findings and Recommendations section.

# Revised Findings and Recommendations

## **FINDING 1— Unallowable salaries and benefits**

The district claimed \$632,970 in salaries and benefits, and \$91,185 in related indirect costs for the audit period. Salaries and benefits totaling \$382,215 were unallowable because the district claimed \$380,591 for activities not identified in the program's parameters and guidelines as reimbursable costs and did not support \$1,624. The related unallowable indirect costs totaled \$59,248.

The following table summarizes the audit adjustment by reimbursable component:

<u>Reimbursable Component</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
G3–Cost of Negotiations	\$ 522,003	\$ 139,916	\$ (382,087)
G4–Impasse Proceedings	884	884	—
G5–Collective Bargaining Agreement Disclosure	3,350	3,350	—
G6–Contract Administration	104,070	103,942	(128)
G7–Unfair Labor Practice Charge	2,663	2,663	—
Total salaries and benefits	<u>632,970</u>	<u>250,755</u>	<u>(382,215)</u>
Related indirect costs	<u>91,185</u>	<u>31,937</u>	<u>(59,248)</u>
Total	<u>\$ 724,155</u>	<u>\$ 282,692</u>	<u>\$ (441,463)</u>

### **Component G3-Cost of Negotiations**

For the Cost of Negotiations cost component, the district claimed \$522,003 in salaries and benefits. We determined that \$382,087 was unallowable. The costs are unallowable because the district claimed \$380,591 for activities not identified in the parameters and guidelines as reimbursable costs and \$1,496 that was unsupported.

#### *Ineligible Activities*

##### **Release Time for Union Representatives—**

The district claimed reimbursement of \$316,854 for Faculty Association (FA) union members to represent the union at all negotiation sessions. The parameters and guidelines state that the salaries of union representatives are not reimbursable, but the cost of substitutes for release time of exclusive bargaining unit representatives during negotiations is reimbursable. Therefore, the claimed costs were unallowable. Following the exit conference, the district provided a list of the instructors who provided backfill support for reimbursable released union negotiators. The costs for these negotiators total \$22,903. Accordingly, the revised ineligible costs total is \$293,951.

The following table summarizes the audit adjustment for ineligible release time for union representatives:

Position	Fiscal Year			Total
	2002-03	2003-04	2004-05	
FA Chief Negotiator	\$ (16,899)	\$ (33,387)	\$ (26,938)	\$ (77,224)
FA President	(50,770)	(54,488)	(64,707)	(169,965)
Counselor	(6,034)	(17,456)	(23,272)	(46,762)
Audit adjustment	<u>\$ (73,703)</u>	<u>\$ (105,331)</u>	<u>\$ (114,917)</u>	<u>\$ (293,951)</u>

#### Negotiation Preparation Costs—

The district claimed reimbursement of \$67,202 for the district's team members to individually prepare for negotiations and attend board sessions and team caucus meetings in preparation for negotiations. The parameters and guidelines do not identify negotiation preparation costs as a reimbursable activity. However, the parameters and guidelines do state that costs for employer representatives participating in negotiating planning sessions are reimbursable. We determined that each team member's attendance at board and caucus meetings for negotiation planning purposes amounted to \$18,915. The audit adjustment for ineligible negotiation preparation costs totals \$48,287.

The following table summarizes the audit adjustment for ineligible negotiation preparation costs:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Audit adjustment	<u>\$ (12,204)</u>	<u>\$ (16,774)</u>	<u>\$ (19,309)</u>	<u>\$ (48,287)</u>

#### District Representatives Participating in Negotiation Sessions—

The district claimed reimbursement of \$38,353 for two substitutes to provide backfill support for two deans participating in negotiation sessions. The two deans represented the district at all Faculty Association negotiations. The parameters and guidelines state that the costs of the substitutes for release time is reimbursable only for the bargaining unit representatives (i.e., the Faculty Association side of the negotiations) and not the district's representatives. Accordingly, these costs are unallowable.

The following table summarizes the audit adjustment for ineligible district representatives participating in negotiation sessions:

Position	Fiscal Year		Total
	2002-03	2003-04	
Substitute for Dean of Special Programs	\$ (9,438)	\$ (10,394)	\$ (19,832)
Substitute for Dean of Language Arts	(9,235)	(9,286)	(18,521)
Audit adjustment	<u>\$ (18,673)</u>	<u>\$ (19,680)</u>	<u>\$ (38,353)</u>

Unsupported Salaries and Benefits—

The district claimed reimbursement of 195.5 hours for the Human Resources Director and 163.5 hours for the Dean of Language Arts at San Jose Community College to prepare for negotiation sessions and attend at-table negotiations in FY 2002-03. However, the time logs the district provided in support of the hours claimed showed the Human Resources Director actually spent 185.5 hours and the Dean of Language Arts spent 161.5 hours performing these activities—a combined overstatement of 12 hours. In addition, the district double-claimed 8 hours for the Dean of Language Arts at Evergreen Valley College to attend table negotiations on November 15, 2002. The parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will only be reimbursed for the increased costs incurred. The unsupported costs total \$1,496.

The following table summarizes the audit adjustment for unsupported salaries and benefits:

Position	Fiscal Year 2002-03		
	Number of Hours Overclaimed	Productive Hourly Rate	Total
Human Resources Director	10	\$78.00	\$ (780)
Dean of Language Arts at SJCC	2	\$71.86	(144)
Dean of Language Arts at EVC	8	\$71.51	(572)
Audit adjustment			<u>\$ (1,496)</u>

**Component G6—Contract Administration**

For the Contract Administration cost component, the district claimed \$104,070 in salaries and benefits for the audit period. We determined that \$128 was unallowable because the costs were unsupported.

Unsupported Salaries and Benefits—

The district claimed reimbursement in FY 2002-03 for the Fastrack Director to attend 5 hours of training on a new contract. However, documentation the district provided showed that the training took only 2 hours, resulting in an overstatement of 3 hours. The unsupported costs total \$128.

The following table summarizes the audit adjustment for unsupported salaries and benefits:

Position	Fiscal Year 2002-03		
	Number of Hours Overclaimed	Productive Hourly Rate	Total
Fastrack Director	3	\$42.73	<u>\$ (128)</u>

Recommendation

We recommend that the district ensure that all claimed costs are allowable according to the parameters and guidelines. In addition, the district should ensure that all claimed costs are supported by appropriate source documentation. Documentation should identify the mandated functions performed and support the actual number of hours devoted to each function.

District’s Response

The district agreed with the finding.

**FINDING 2—  
Unallowable  
contracted services**

The district claimed \$93,505 in contracted services for the audit period. Of this amount, we determined that \$4,000 was unallowable. The costs are unallowable because the district claimed ineligible costs.

The following table summarizes the audit adjustment by reimbursable component:

<u>Reimbursable Component</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
G3–Cost of Negotiations	\$ 85,338	\$ 81,338	\$ (4,000)
G6–Contract Administration	7,317	7,317	—
G7–Unfair Labor Practice Charge	850	850	—
Total	<u>\$ 93,505</u>	<u>\$ 89,505</u>	<u>\$ (4,000)</u>

**Component G3–Cost of Negotiations**

For the Cost of Negotiations cost component, the district claimed \$85,338 in costs for the audit period. We determined that \$4,000 was unallowable. The contracted service costs are unallowable because the district claimed \$4,000 for activities not identified in the parameters and guidelines as reimbursable costs.

*Ineligible Activities*

The district claimed \$4,000 for the lease of an online collective bargaining database in FY 2003-04. The purpose of the database was to provide online access to comprehensive statewide information submitted by other participating districts so that the district could develop collective bargaining strategies and proposals for negotiations with the unions. The district’s decision to lease the database was discretionary and the law underlying the mandate requires only that the district negotiate with the union. The ineligible costs total \$4,000.

Recommendation

We recommend that the district ensure that all claimed costs are allowable according to the parameters and guidelines.

District’s Response

The district agreed with the finding.

**FINDING 3—  
Misclassified costs**

The district claimed \$771 for materials and supplies and \$5,297 for travel and training for the audit period. Of this amount, the district should have classified \$5,525 (\$411 in materials and supplies, and \$5,114 in travel and training) as Contract Services costs.

The following table summarizes the adjustment by reimbursable component:

Reimbursable Component	Amount Claimed	Amount Allowable as Materials & Supplies	Amount Allowable as Travel & Training	Amount Reclassified to Contract Services
G3–Cost of Negotiations	\$ 5,802	\$ 360	\$ 69	\$ 5,373
G6–Contract Administration	113	—	—	113
G7–Unfair Labor Practice Charge	153	—	114	39
Total	<u>\$ 6,068</u>	<u>\$ 360</u>	<u>\$ 183</u>	<u>\$ 5,525</u>

**Component G3–Cost of Negotiations**

The district claimed reimbursement of \$354 for photocopying, faxing, and computer research costs incurred by Liebert Cassidy Whitmore, Attorneys-at-Law. These are allowable contract services costs; however, the district erroneously posted this amount on its claim form under Materials and Supplies rather than under Contract Services.

In addition, the district claimed reimbursement of \$5,019 for costs incurred by Liebert Cassidy Whitmore, Attorneys-at-Law, to travel to the district from its San Francisco office for negotiations. This is an allowable contract services cost; however, the district erroneously posted this amount on its claim form under Travel and Training rather than under Contract Services.

**Component G6–Contract Administration**

For the Contract Administration cost component, the district claimed reimbursement of \$57 for mileage and faxing costs incurred by Liebert Cassidy Whitmore, Attorneys-at-Law. This is an allowable contract services cost; however, the district erroneously posted this amount on its claim form under Materials and Supplies rather than under Contract Services.

In addition, the district claimed reimbursement of \$56 for faxing and computer research costs incurred by Liebert Cassidy Whitmore, Attorneys-at-Law. This is an allowable contract services cost; however, the district erroneously posted this amount to its claim form under Travel and Training rather than under Contract Services.

### Component G7–Unfair Labor Practice Charge

The district claimed reimbursement of \$39 for costs incurred by Liebert Cassidy Whitmore, Attorneys-at-Law, to travel to the district from its San Francisco office for a Public Employees Retirement Board hearing. This is an allowable contract services cost; however, the district erroneously posted this amount to its claim form under Travel and Training rather than under Contract Services.

The following table summarizes all of the reclassified costs and overstated indirect costs for Finding 3 by fiscal year:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Reclassified contract services costs	\$ 1,401	\$ 1,625	\$ 2,499	\$ 5,525
Reclassified materials and supplies costs	(393)	(18)	—	(411)
Reclassified travel and training costs	(1,008)	(1,607)	(2,499)	(5,114)
Audit adjustment	\$ —	\$ —	\$ —	\$ —

#### Recommendation

We recommend that the district ensure that all claimed costs are reported under the correct cost category.

#### District’s Response

The district agreed with the finding, but “recognized a few minor changes to the draft.”

#### SCO’s Comment

The recommendation remains unchanged.

Subsequent to the issuance of the final audit report, we noted that the district should have applied indirect cost rates to total direct costs incurred by the district, which includes contracted services. We allowed the related indirect costs portion of the reclassified contract services costs, totaling \$855, in Finding 4.

**FINDING 4—  
Understated indirect  
costs**

The district understated indirect costs by \$35,756 for the audit period. The understatement resulted because the district applied the FAM-29C indirect cost rate to the wrong direct cost base (\$13,863), and did not prepare the FAM-29C in accordance with the methodology outlined in the State Controller's Office (SCO) Mandated Costs for Community Colleges Manual (\$21,893).

*Incorrect Direct Cost Base*

Subsequent to the issuance of the April 23, 2008, final audit report, we discovered that the FAM-29C indirect cost rates were not applied to the proper direct cost base for each fiscal year of the audit period. In the original audit report, the claimed indirect cost rates were not applied to allowable contract services costs (net of the reclassified costs identified in Finding 3) for FY 2002-03, FY 2003-04 and FY 2004-05. As a result, indirect costs were understated by \$13,863. The SCO Mandated Costs for Community Colleges Manual states that the FAM-29C rate is applied to total direct costs, which includes contract services.

The following table summarizes the unclaimed indirect costs for contracted services:

Category	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Claimed contract services	\$ 25,704	\$ 28,489	\$ 39,312	
Less unallowable contract services	—	(4,000)	—	
Allowable contract services costs	25,704	24,489	39,312	
FAM-29C indirect cost rate claimed	15.90%	15.20%	15.40%	
Unclaimed indirect costs	\$ 4,087	\$ 3,722	\$ 6,054	\$ 13,863

*Incorrect FAM-29C Indirect Cost Rate Calculations*

The district incorrectly calculated the FAM-29C indirect cost rate for each fiscal year of the audit period. As a result, indirect costs totaling \$21,893 were understated.

The following table summarizes the understated indirect costs:

Audit Adjustment	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Allowable indirect cost rate	16.04%	15.33%	36.04%	
Claimed indirect cost rate	(15.90)%	(15.20)%	(15.40)%	
Misstated indirect cost rate	0.14%	0.13%	20.64%	
Multiplied by allowable increased direct costs	\$ 95,978	\$ 96,821	\$ 104,812	
Audit adjustment	\$ 134	\$ 126	\$ 21,633	\$ 21,893

Using FAM-29C methodology, the SCO's Mandated Cost Manual (December 2005 revision) notes that Planning and Policy Making (account classification #6600), Fiscal Operations (account classification #6720), and Human Resources Management (account classification #6730) are now classified entirely as indirect costs. However, the district identified \$53,063 of these account classifications as direct costs in error

(\$8,373 for FY 2002-03, \$11,461 for FY 2003-04, and \$33,229 for FY 2004-05). We also noted that, during the audit period, the district improperly included \$1,079,539 of unallowable Other Outgo expenses as direct costs in its FAM-29C calculations (\$350,549 for FY 2002-03, \$441,186 for FY 2003-04, and \$287,804 for FY 2004-05).

In addition, we reclassified all costs under the account classifications of Operation and Maintenance of Plan (account classification #6500), Staff Development (account classification #6750), and Staff Diversity (account classification #6760) as 100% indirect on the FAM-29C for FY 2004-05. We also reclassified direct Physical Property expense (account classification #7100) of \$155,807 as unallowable. These reclassifications are consistent with changes made to the FAM-29C calculation outlined in the revised Mandated Cost Manual for Community Colleges.

We also noted subsequent to the issuance of the April 23, 2008, final audit report that the indirect cost rate calculation for FY 2004-05 excluded depreciation expense incurred by the district for capital assets as an indirect cost. We obtained the depreciation amount from Note 4 of the district's Basic Financial Statements (\$5,242,685). This increased the allowable indirect cost rate by 8.33%, from 27.71% to 36.04%. As a result of this change, allowable indirect costs for FY 2004-05 increased by \$8,731.

The net effect of these adjustments increased the district's allowable indirect cost rates to 16.04% for FY 2002-03, 15.33% for FY 2003-04, and 36.04% for FY 2004-05, as noted in the table above.

As noted above, the SCO's Mandated Cost Manual for Community Colleges states that Human Resources Management expenses (account classification #6730) should be classified 100% indirect. However, the district's reimbursement claims included \$59,672 (\$25,831 for FY 2002-03, \$25,868 for FY 2003-04, and \$7,973 for FY 2004-05) of Human Resources Management personnel costs as direct costs. We allowed the \$59,672 as direct costs and excluded it when computing allowable indirect costs.

#### Recommendation

We recommend that the district ensure that the indirect cost rate calculations are consistent with the methodology outlined in the SCO's Mandated Cost Manual for Community Colleges for the preparation of Form FAM-29C.

#### District's Response

The district agreed with the finding.

SCO's Comment

The recommendation remains unchanged.

Subsequent to the issuance of the April 23, 2008 final audit report, we discovered that the district did not apply the FAM-29C indirect cost rates to the proper direct cost base for each fiscal year of the audit period. The district also incorrectly calculated the FAM-29C indirect cost rate for each fiscal year of the audit period.

We corrected these calculation errors. As a result, additional allowable costs for understated indirect costs increased by \$27,812, from \$7,944 to \$35,756.

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