

HAYWARD UNIFIED SCHOOL DISTRICT

Audit Report

COLLECTIVE BARGAINING PROGRAM

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

July 1, 2001, through June 30, 2004



JOHN CHIANG
California State Controller

June 2007



JOHN CHIANG
California State Controller

June 29, 2007

Dr. Dale W. Vigil, Superintendent
Hayward Unified School District
24411 Amador Street
Hayward, CA 94540

Dear Dr. Vigil:

The State Controller's Office audited the costs claimed by the Hayward 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, 2001, through June 30, 2004.

The district claimed and was paid \$362,060 for the mandated program. Our audit disclosed that \$267,829 is allowable and \$94,231 is unallowable. The unallowable costs occurred primarily because the district claimed ineligible costs. The State will offset \$94,231 from other mandated program payments due to the district. Alternatively, the district may remit this amount to the State.

If you disagree with the audit 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 CSM's Web site, at www.csm.ca.gov (Guidebook link); you may 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, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Carole Lopez, Director of Administrative Services
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Hayward 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, 2001, through June 30, 2004. The last day of fieldwork was May 4, 2006.

The district claimed and was paid \$362,060 for the mandated program. Our audit disclosed that \$267,829 is allowable and \$94,231 is unallowable. The unallowable costs occurred primarily because the district claimed ineligible costs. The State will offset \$94,231 from other mandated program payments due to the district. Alternatively, the district may remit this amount to the State.

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 reimbursable 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 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The seven allowable claim 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

Parameters and Guidelines establishes the state mandate and defines 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, 2001, through June 30, 2004.

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 the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope 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 costs claimed 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

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, the Hayward Unified School District claimed and was paid \$362,060 for costs of the Collective Bargaining Program. Our audit disclosed that \$267,829 is allowable and \$94,231 is unallowable.

The State paid the district \$362,060. Our audit disclosed that \$267,829 is allowable. The State will offset \$94,231 from other mandated program payments due to the district. Alternatively, the district may remit this amount to the State.

**Views of
Responsible
Officials**

We issued a draft audit report on May 25, 2007. Barry Schimmel, Assistant Superintendent of Business Services, responded by e-mail dated June 15, 2007. The Superintendent's secretary responded by e-mail dated June 15, 2007, stating that Barry Schimmel, Assistant Superintendent of Business Services, indicated that his department "does not have additional information or a response to the draft report."

Restricted Use

This report is solely for the information and use of the Hayward Unified School District, the Alameda County Office of Education, the California Department of Education, 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, 2001, through June 30, 2004**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Component activities G1 through G3:				
Salaries and benefits	\$ 92,045	\$ 75,404	\$ (16,641)	Finding 1
Contracted services	67,674	67,674	—	
Subtotal	159,719	143,078	(16,641)	
Less adjusted base year direct costs	(30,680)	(30,680)	—	
Total increased direct costs, G1 through G3	129,039	112,398	(16,641)	
Component activities G4 through G7:				
Salaries and benefits	68,829	10,353	(58,476)	Finding 1
Materials and supplies	287	287	—	
Contracted services	30,047	29,430	(617)	Finding 2
Total increased direct costs, G4 through G7	99,163	40,070	(59,093)	
Total increased direct costs, G1 through G7	228,202	152,468	(75,734)	
Indirect costs	5,859	2,486	(3,373)	Finding 1
Total program costs	<u>\$ 234,061</u>	154,954	<u>\$ (79,107)</u>	
Less amount paid by the State		(234,061)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (79,107)</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Component activities G1 through G3:				
Salaries and benefits	\$ 41,576	\$ 40,428	\$ (1,148)	Finding 1
Contracted services	43,066	43,066	—	
Subtotal	84,642	83,494	(1,148)	
Less adjusted base year direct costs	(31,367)	(31,367)	—	
Total increased direct costs, G1 through G3	53,275	52,127	(1,148)	
Component activities G4 through G7:				
Salaries and benefits	20,076	12,614	(7,462)	Finding 1
Contracted services	35,914	33,393	(2,521)	Finding 2
Total increased direct costs, G4 through G7	55,990	46,007	(9,983)	
Total increased direct costs, G1 through G7	109,265	98,134	(11,131)	
Indirect costs	654	468	(186)	Finding 1
Total program costs	<u>\$ 109,919</u>	98,602	<u>\$ (11,317)</u>	
Less amount paid by the State		(109,919)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (11,317)</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Component activities G1 through G3:				
Salaries and benefits	\$ 5,393	\$ 7,566	\$ 2,173	Finding 1
Contracted services	<u>26,358</u>	<u>26,358</u>	<u>—</u>	
Subtotal	31,751	33,924	2,173	
Less adjusted base year direct costs	<u>(31,751)</u>	<u>(31,751)</u>	<u>—</u>	
Total increased direct costs, G1 through G3	<u>—</u>	<u>2,173</u>	<u>2,173</u>	
Component activities G4 through G7:				
Salaries and benefits	6,181	674	(5,507)	Finding 1
Contracted services	<u>11,899</u>	<u>11,426</u>	<u>(473)</u>	Finding 2
Total increased direct costs, G4 through G7	<u>18,080</u>	<u>12,100</u>	<u>(5,980)</u>	
Total program costs	<u>\$ 18,080</u>	14,273	<u>\$ (3,807)</u>	
Less amount paid by the State		<u>(18,080)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (3,807)</u>		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Total program costs	<u>\$ 362,060</u>	\$ 267,829	<u>\$ (94,231)</u>	
Less amount paid by the State		<u>(362,060)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (94,231)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Unallowable salary
and benefit costs, and
related indirect costs**

The district claimed unallowable salary and benefit costs totaling \$87,061 for the audit period. The related indirect costs, based on the claimed indirect cost rates for each fiscal year, total \$3,559. The audit adjustment resulted from the following issues.

Inaccurate Productive Hourly Rates

The district reported inaccurate productive hourly rates, which resulted in net overstated salary and benefit costs totaling \$7,410 for the audit period. The district calculated incorrect productive hourly rates because of the following errors.

- The district used incorrect employee salary rates to calculate productive hourly rates. We calculated audited productive hourly rates based on salary rates documented in the district’s payroll records.
- The district claimed productive hourly rates for hourly-paid employees.

The following table summarizes the audit adjustment that resulted from the district’s use of inaccurate productive hourly rates.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Salary and benefit costs:				
Component activities G1-G3	\$ (8,621)	\$ 2,237	\$ 3,843	\$ (2,541)
Component activities G4-G7	(11,066)	1,955	4,242	(4,869)
Audit adjustment	<u>\$ (19,687)</u>	<u>\$ 4,192</u>	<u>\$ 8,085</u>	<u>\$ (7,410)</u>

Ineligible Costs

The district claimed unallowable salary and benefit costs totaling \$71,205 for the audit period. The claimed costs are ineligible for the following reasons.

- The district claimed employee training costs of \$31,606 related to employees attending a workshop or monthly meeting, which are not reimbursable activities under the mandated program.
- The district claimed employee hours totaling \$36,405 that are not sufficiently supported to validate the occurrence of the mandated activities.
- The district overstated employee hours totaling \$2,446 by claiming unpaid hours of salaried full-time employees.
- The district claimed \$748 of ineligible costs for the district Superintendent.

The following table summarizes the audit adjustment that resulted from ineligible costs.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Salary and benefit costs:				
Component activities G1-G3	\$ (2,445)	\$ (676)	\$ (1,508)	\$ (4,629)
Component activities G4-G7	<u>(47,410)</u>	<u>(9,417)</u>	<u>(9,749)</u>	<u>(66,576)</u>
Audit adjustment	<u>\$ (49,855)</u>	<u>\$ (10,093)</u>	<u>\$ (11,257)</u>	<u>\$ (71,205)</u>

Unsupported Hours

The district claimed overstated salary and benefit costs totaling \$4,334 for the audit period. The district claimed inaccurate mandate-related hours primarily for the following reasons.

- The district made mathematical errors in preparing the mandated cost claims. Errors include typographic and duplicate costs.
- The district claimed employee hours that are not supported.

The following table summarizes the audit adjustment that resulted from unsupported hours claimed.

	Fiscal Year		Total
	2001-02	2002-03	
Salary and benefit costs:			
Component activities G1-G3	\$ (3,646)	\$ (688)	\$ (4,334)
Audit adjustment	<u>\$ (3,646)</u>	<u>\$ (688)</u>	<u>\$ (4,334)</u>

The following table summarizes the salary and benefit costs audit adjustment.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Salaries and benefits:				
Component activities G1-G3:				
Inaccurate productive hourly rate	\$ (8,621)	\$ 2,237	\$ 3,843	\$ (2,541)
Ineligible costs	(2,445)	(676)	(1,508)	(4,629)
Mathematical error	(1,929)	(2,021)	(162)	(4,112)
Unsupported costs	<u>(3,646)</u>	<u>(688)</u>	<u>—</u>	<u>(4,334)</u>
Total, component activities G1-G3	<u>(16,641)</u>	<u>(1,148)</u>	<u>2,173</u>	<u>(15,616)</u>
Component activities G4-G7:				
Inaccurate productive hourly rate	(11,066)	1,955	4,242	(4,869)
Ineligible costs	<u>(47,410)</u>	<u>(9,417)</u>	<u>(9,749)</u>	<u>(66,576)</u>
Total, component activities G4-G7	<u>(58,476)</u>	<u>(7,462)</u>	<u>(5,507)</u>	<u>(71,445)</u>
Total salaries and benefits	(75,117)	(8,610)	(3,334)	(87,061)
Related indirect costs	<u>(3,373)</u>	<u>(186)</u>	<u>—</u>	<u>(3,559)</u>
Audit adjustment	<u>\$ (78,490)</u>	<u>\$ (8,796)</u>	<u>\$ (3,334)</u>	<u>\$ (90,620)</u>

Parameters and Guidelines states, “Public school employers will be reimbursed for the ‘increased costs’ incurred as a result of compliance with the mandate.” *Government Code* Section 17514 states that “costs mandated by the State” means any increased costs, which a school district is required to incur.

Parameters and Guidelines states, “Personal development and informational programs, i.e., classes, conferences, seminars, workshops, and time spent by employees attending such meetings are not reimbursable.”

Parameters and Guidelines states, “the costs for salaries and expenses of the governing authority, for example the School Superintendent and Governing Board, are not reimbursable.”

Recommendation

We recommend that the district develop and implement an adequate recording and reporting system to ensure all costs claimed are allowable and properly supported.

FINDING 2— Unallowable contracted services costs

The district claimed unallowable contracted services costs totaling \$3,611 for the audit period (\$617 in FY 2001-02, \$2,521 in FY 2002-03, and \$473 in FY 2003-04). The audit adjustment resulted from the following issues.

Non-Collective Bargaining Related Grievance Adjudication Costs

The district claimed unallowable costs totaling \$648 for FY 2001-02 and FY 2003-04 for grievance adjudication costs that were not collective bargaining related.

Insufficient Support

The district claimed unallowable costs totaling \$2,469 for FY 2001-02 and FY 2002-03 under component G6—Contract administration. The district claimed these costs for attorney and arbitration services performed to adjudicate contract disputes. However, the auditor was unable to verify that these costs were related to collective bargaining because the district was unable to provide any correlation between the description of the costs identified in attorney invoices and the description in the district’s employee grievance files. As a result, the district did not provide adequate supporting documentation for our review that would allow us to determine that claimed costs were incurred for reimbursable activities under the mandate program.

Duplicate Costs

The district claimed duplicate costs totaling \$494 for FY 2001-02 and FY 2002-03.

The following table summarizes the contracted services costs audit adjustment.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Contracted services:				
Component activities G4-G7:				
Non-collective bargaining related grievance	\$ (175)	\$ —	\$ (473)	\$ (648)
Insufficient support	(23)	(2,446)	—	(2,469)
Duplicate costs	(419)	(75)	—	(494)
Total, component activities G4-G7	(617)	(2,521)	(473)	(3,611)
Audit adjustment	\$ (617)	\$ (2,521)	\$ (473)	\$ (3,611)

Parameters and Guidelines states, “Public school employers will be reimbursed for the ‘increased costs’ incurred as a result of compliance with the mandate.” *Government Code* Section 17514 states that “costs mandated by the State” means any increased costs, which a school district is required to incur.

Government Code Section 17560 requires school districts to file an annual reimbursement claim that details the costs actually incurred for the fiscal year.

Recommendation

We recommend that the district develop and implement an effective control and reporting system to ensure that all claimed costs are eligible, and adequately supported.

**State Controller's Office
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<http://www.sco.ca.gov>