

MONTEBELLO UNIFIED SCHOOL DISTRICT

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

June 2007



JOHN CHIANG
California State Controller

June 29, 2007

Edward Velasquez, Superintendent
Montebello Unified School District
123 South Montebello Boulevard
Montebello, CA 90640

Dear Mr. Velasquez:

The State Controller's Office audited the costs claimed by the Montebello 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, 2002, through June 30, 2005.

The district claimed and was paid \$786,757 for the mandated program. Our audit disclosed that \$441,269 is allowable and \$345,488 is unallowable. The unallowable costs occurred because the district claimed ineligible and unsupported costs. The State will offset \$345,488 from other mandated program payments due 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/jj:vb

cc: Glenn Sheppard, Assistant Superintendent
Business Services
Montebello Unified School District
Darline Robles, Ph.D., County Superintendent of Schools
Los Angeles County Office of Education
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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Summary of Program Costs.....	4
Findings and Recommendations	6
Attachment—District’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Montebello 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, 2002, through June 30, 2005. The last day of fieldwork was June 21, 2006.

The district claimed and was paid \$786,757 for the mandated program. Our audit disclosed that \$441,269 is allowable and \$345,488 is unallowable. The unallowable costs occurred because the district claimed ineligible and unsupported costs. The State will offset 345,488 from other mandated program payments due 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 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 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, 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 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 Montebello Unified School District claimed \$786,757 for costs of the Collective Bargaining Program. Our audit disclosed that \$441,269 is allowable and \$345,488 is unallowable.

For fiscal year (FY) 2002-03 claim, the State paid the district \$197,849. Our audit disclosed that \$117,387 is allowable. The State will offset \$80,462 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2003-04 claim, the State paid the district \$266,813. Our audit disclosed that \$108,382 is allowable. The State will offset \$158,431 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2004-05 claim, the State paid the district \$322,095. Our audit disclosed that \$215,500 is allowable. The State will offset \$106,595 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

**Views of
Responsible
Official**

We issued a draft audit report on March 16, 2007. Peter Wong, Controller, responded by letters dated April 2, 2007, and April 27, 2007 (Attachments), partially agreeing with Findings 1 and 4, disagreeing with Finding 2, and agreeing with Finding 3. This final audit report includes the district's response. We did not include the district's attachments because they contained payroll-related information.

Based on a review of corroborating evidence provided by the district's Controller and after obtaining legal input, we revised Findings 2 and 4. Consequently, the findings reported in the draft report were reduced by \$103,680, from \$449,168 to \$345,488. We discussed the revisions with the district's Controller on May 11, 2007. With the exception of \$5,427 claimed for negotiation preparation in Finding 4, the district's Controller concurred with the revisions to Findings 2 and 4.

Restricted Use

This report is solely for the information and use of the Montebello Unified School District, the Los Angeles 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, 2002, through June 30, 2005**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Components activities G1 through G3:				
Salaries and benefits	\$ 85,753	\$ 46,190	\$ (39,563)	Findings 1, 2
Materials and supplies	6,129	6,129	—	
Contracted services	<u>87,418</u>	<u>62,280</u>	<u>(25,138)</u>	Finding 4
Increased direct costs, G1 through G3	<u>179,300</u>	<u>114,599</u>	<u>(64,701)</u>	
Components activities G4 through G7:				
Salaries and benefits	240	—	(240)	Findings 1
Contracted services	<u>13,399</u>	<u>—</u>	<u>(13,399)</u>	Finding 4
Increased direct costs, G4 through G7	<u>13,639</u>	<u>—</u>	<u>(13,639)</u>	
Total increased direct costs, G1 through G7	192,939	114,599	(78,340)	
Indirect costs	<u>4,910</u>	<u>2,788</u>	<u>(2,122)</u>	Findings 1, 2
Total costs	<u>\$ 197,849</u>	117,387	<u>\$ (80,462)</u>	
Less amount paid by the State		<u>(197,849)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ (80,462)</u>	
<u>July 1, 2003, through June 30, 2004</u>				
Components activities G1 through G3:				
Salaries and benefits	\$ 162,472	\$ 30,761	\$ (131,711)	Findings 1, 2
Materials and supplies	25,193	4,800	(20,393)	Findings 2, 3
Contracted services	<u>69,428</u>	<u>69,428</u>	<u>—</u>	Finding 4
Increased direct costs, G1 through G3	<u>257,093</u>	<u>104,989</u>	<u>(152,104)</u>	
Components activities G4 through G7:				
Contracted services	<u>1,913</u>	<u>1,913</u>	<u>—</u>	
Total increased direct costs, G1 through G7	259,006	106,902	(152,104)	
Indirect costs	<u>7,807</u>	<u>1,480</u>	<u>(6,327)</u>	Findings 1, 2, 3
Total costs	<u>\$ 266,813</u>	108,382	<u>\$ (158,431)</u>	
Less amount paid by the State		<u>(266,813)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ (158,431)</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2004, through June 30, 2005</u>				
Components activities G1 through G3:				
Salaries and benefits	\$ 166,068	\$ 80,639	\$ (85,429)	Findings 1, 2
Materials and supplies	11,447	5,907	(5,540)	Finding 3
Contracted services	<u>135,478</u>	<u>124,067</u>	<u>(11,411)</u>	Finding 4
Increased direct costs, G1 through G3	<u>312,993</u>	<u>210,613</u>	<u>(102,380)</u>	
Components activities G4 through G7:				
Salaries and benefits	178	—	(178)	Finding 1
Contracted services	<u>1,052</u>	<u>1,052</u>	<u>—</u>	
Increased direct costs, G4 through G7	<u>1,230</u>	<u>1,052</u>	<u>(178)</u>	
Total increased direct costs, G1 through G7	314,223	211,665	(102,558)	
Indirect costs	<u>7,872</u>	<u>3,835</u>	<u>(4,037)</u>	Findings 1, 2, 3
Total costs	<u>\$ 322,095</u>	215,500	<u>\$ (106,595)</u>	
Less amount paid by the State		<u>(322,095)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ (106,595)</u>	
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Components activities G1 through G3:				
Salaries and benefits	\$ 414,293	\$ 157,590	\$ (256,703)	Findings 1, 2
Materials and supplies	42,769	16,836	(25,933)	Findings 2, 3
Contracted services	<u>292,324</u>	<u>255,775</u>	<u>(36,549)</u>	Finding 4
Increased direct costs, G1 through G3	<u>749,386</u>	<u>430,201</u>	<u>(319,185)</u>	
Components activities G4 through G7:				
Salaries and benefits	418	—	(418)	Finding 1
Contracted services	<u>16,364</u>	<u>2,965</u>	<u>(13,399)</u>	Finding 4
Increased direct costs, G4 through G7	<u>16,782</u>	<u>2,965</u>	<u>(13,817)</u>	
Total increased direct costs, G1 through G7	766,168	433,166	(333,002)	
Indirect costs	<u>20,589</u>	<u>8,103</u>	<u>(12,486)</u>	Findings 1, 2
Total costs	<u>\$ 786,757</u>	441,269	<u>\$ (345,488)</u>	
Less amount paid by the State		<u>(786,757)</u>		
Allowable costs claimed in excess of (less than) amount paid			<u>\$ (345,488)</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 \$250,694 in unallowable salary and benefit costs for the audit period. The related indirect costs, based on claimed indirect cost rates, totaled \$11,071.

The district claimed \$158,042 in unsupported salaries and benefits for negotiations, agreement disclosure, and contract administrations—\$11,982 for fiscal year (FY) 2002-03, \$108,418 for FY 2003-04, and \$37,642 for FY 2004-05. The district did not provide any documentation—such as individual activity log sheets, meeting sign-in sheets, or time records—to support 189 hours for FY 2002-03, 1,359.5 hours for FY 2003-04, and 639.5 hours for FY 2004-05. Without other corroborating evidence, we could not ascertain whether the costs claimed reflect actual mandated activities that the district performed.

The district also claimed \$92,652 in ineligible salaries and benefits related to negotiation preparation: \$23,661 for FY 2002-03, \$23,293 for FY 2003-04, and \$45,698 for FY 2004-05. The district claimed 397.5 hours for FY 2002-03, 280.5 hours for FY 2003-04, and 680 hours for FY 2004-05. The district claimed ½ hour of negotiation preparation for every one hour of actual negotiations. These costs were also unsupported. The district did not provide any documentation to validate the costs claimed. The district provided no documentation showing that the preparation time claimed related to negotiation planning sessions, which are allowable costs.

Following is a summary of the unallowable salaries and benefits.

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Salaries and benefits				
Component G3:				
Cost of negotiation	\$ (35,403)	\$ (131,711)	\$ (83,162)	\$(250,276)
Component G5:				
Agreement disclosure	(240)	—	—	(240)
Component G6:				
Contract administration	—	—	(178)	(178)
Total salaries and benefits	(35,643)	(131,711)	(83,340)	(250,694)
Related indirect cost	(1,900)	(5,479)	(3,692)	(11,071)
Audit adjustment	\$ (37,543)	\$ (137,190)	\$ (87,032)	\$(261,765)

Parameters and Guidelines states, “Public schools employers will be reimbursed for the ‘increased costs’ incurred as a result of compliance with the mandate.”

Parameters and Guidelines requires the district to “show the classification of the employees involved, amount of time spent, and their hourly rate.”

Parameters and Guidelines requires the district to “Show the costs of salaries and benefits for employer representatives participating in negotiations” and “Show the costs of employer representatives and employees participating in negotiation planning sessions.”

Recommendation

We recommend that the district ensure that all claimed costs are supported by appropriate documentation. Documentation should identify the mandated functions performed and support the actual number of hours devoted to each function.

District's Response

The District accepts the audit finding disallowing \$11,982, \$108,418 and \$37,642 for negotiation in 2002-03, 2003-04 and 2004-05 respectively.

However, the District appeals the disallowance of \$23,661 in 2002-03, \$23,293 in 2003-04 and \$45,698 in 2004-05 for negotiation preparation as unallowable activity. During the exit audit conference, the explanation given to the District was that the Controller Office's interpretation of negotiation preparation as an activity that members representing both the management and labor groups should be present. Since all our preparation activities involved only the management members and did not meet the aforementioned Controller Office interpretation, all amount claimed are disallowed.

In the Parameters and Guidelines of Collective Bargaining Mandated Cost, it states clearly that the costs of salaries and benefits for employer representatives and employees participating in negotiation planning sessions are reimbursable. There are no languages suggesting that the presence of members representing both the labor groups and management are required for planning purposes.

The District feels strongly the rationale for disallowing these claims contradicted the Parameters and Guidelines and is therefore appealing the finding.

SCO's Comment

The finding remains unchanged.

We agree that reimbursable costs of employees participating in negotiation planning sessions relate to members representing management. As explained in the draft audit report, the district claimed ½ hour of negotiation preparation for every one hour of actual negotiations. This activity is not identified in the *Parameters and Guidelines* as reimbursable. The district provided no documentation showing that the preparation time claimed related to reimbursable negotiation planning sessions costs.

**FINDING 2—
Unallowable
substitute teacher
costs and related
indirect costs**

The district claimed \$24,660 in unallowable costs for substitute teachers. The related indirect costs totaled \$1,080.

For FY 2002-03, the district claimed \$4,160 in unsupported costs for substitute teachers. The district claimed 111.5 days for substitute teachers, but provided documentation that only 80 days related to negotiations sessions. Therefore, we allowed only the 80 days.

For FY 2003-04, the district claimed \$18,233 in unsupported costs for substitute teachers, reported under Materials and Supplies. The district incorrectly computed the costs of substitute teachers by multiplying the daily pay rate for substitutes by 164 half days worked rather than by 82 full days worked. The district pays substitute teachers a daily rate regardless of hours worked; one full day worked by a substitute teacher equates to two half days. Of the 82 full days worked, the district did not provide any documentation for 75 days showing that the costs claimed related to substitutes for release time of collective bargaining representatives to attend negotiation meetings. The district provided no source documents, such as negotiation sign-in sheets, time records, or individual activity log sheets.

For FY 2004-05, the district claimed \$2,267 in unsupported costs for substitute teachers. The district incorrectly computed the cost of substitute teachers by multiplying the daily pay rate by the number of substitute teachers, including substitutes used so that non-collective bargaining representatives could attend meetings unrelated to negotiations. As noted above, the district pays substitute teachers a daily rate regardless of the hours worked. We computed the allowable costs of substitute teachers based on the daily pay rate, the number of negotiation sessions days as supported by sign-in sheets, the number of negotiation-session days as supported by sign-in sheets, and the number of collective bargaining representatives who attended the sessions.

Following is a summary of the unallowable substitute teacher costs and related indirect costs.

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Component G3:				
Cost of negotiation				
Salaries and benefits	\$ (4,160)	\$ —	\$ (2,267)	\$ (6,427)
Materials and supplies	—	(18,233)	—	(18,233)
Subtotal	(4,160)	(18,233)	(2,267)	(24,660)
Related indirect costs	(222)	(758)	(100)	(1,080)
Audit adjustment	\$ (4,382)	\$ (18,991)	\$ (2,367)	\$ (25,740)

Parameters and Guidelines states, “Public schools employers will be reimbursed for the ‘increased costs’ incurred as a result of compliance with the mandate.”

Parameters and Guidelines requires the district to “show the classification of the employees involved, amount of time spent, and their hourly rate.”

Parameters and Guidelines requires the district to “Show the costs of salaries and benefits for employer representatives participating in negotiations” and “Show the costs of employer representatives and employees participating in negotiation planning sessions.”

Recommendation

We recommend that the district ensure that all claimed costs are supported by appropriate documentation. Documentation should identify the mandated functions performed and support the actual number of hours devoted to each function.

District's Response

For fiscal year 2002-03, the District claimed 111.5 days of substitute teacher costs for negotiation in the amount of \$15,205. The audit disallowed 76.5 days, or \$10,280 for the lacking of supporting documents. Attached please find two separate schedules of the Montebello Teachers Association (MTA) negotiation. There were 16 negotiation sessions between October 24, 2002 and November 20, 2002. Also attached is the "Absence Report by Site" generated from the substitute teacher finder system, which listed the dates of absences for the five MTA negotiation team members (Irving Bartikofsky, Gloria Estrada, Teresa Salas-Ortiz, Kenneth Seto and Dianne Stevens) and their substitute teachers. These documents together should substantiate 80 out of the 111.5 days claimed. The District is appealing the disallowed substitute teacher costs should only be 31.5 days or \$4,160 (\$130/day) plus related indirect costs.

For fiscal year 2003-04, the District claimed 164 days of substitute costs for negotiation in the amount of \$20,053. The audit disallowed all of it. Attached are the negotiation schedule and the Absence Report by Site for 2003-04, they substantiate 15 days of substitute teacher costs for the five members (Dianne Stevens, Gloria Estrada Garza, Irving Bartikofsky, Elizabeth Gasca and Kenneth Seto) of the MTA negotiation team, or \$1,950. The District is appealing to reduce the disallowance by this amount.

For fiscal year 2004-05, the District is able to substantiate 7 days of substitute teacher costs for the MTA negotiation team (Terry Salas Ortiz, Brian Stevens, Walter Lowery and Dolores Rego), using the Absence Report by Site and the negotiation schedule (attached), or \$910.00. The District is appealing the audit adjustment be reduced by this amount.

SCO's Comment

Upon reviewing other corroborating evidence provided by the district's Controller, we concur with his comments. Consequently, based on our analysis, we reduced the finding by \$11,466, from \$37,206 to \$25,740. In a May 11, 2007, telephone conversation, the district's Controller concurred with the revised finding.

**FINDING 3—
Unallowable materials
and supplies costs**

The district claimed \$7,700 in unallowable materials and supplies costs for the audit period. The related indirect costs totaled \$335.

For FY 2004-05, the district claimed \$5,540 in ineligible travel costs under "Materials and Supplies." The district claimed \$3,000 for lodging costs incurred for negotiation training sessions, but was able to support costs of only \$1,440, an overstatement of \$1,560. Of the \$1,440, \$1,320 is ineligible for reimbursement because it was for the lodging costs for union collective bargaining representatives. Only specified training

sessions held for supervisory and management personnel are reimbursable.

For FY 2003-04 and FY 2004-05, the district claimed \$2,160 in unsupported printing costs. The district provided calculations showing how the costs were derived, but did not provide any documentation to support the figures used. Without source documents, we were unable to verify the validity of costs claimed.

Following is a summary of the unallowable materials and supplies.

	Fiscal Year		Total
	2003-04	2004-05	
Materials and supplies			
Component G3:			
Cost of negotiation	\$ (2,160)	\$ (5,540)	\$ (7,700)
Related indirect costs	(90)	(245)	(335)
Audit adjustment	<u>\$ (2,250)</u>	<u>\$ (5,785)</u>	<u>\$ (8,035)</u>

Parameters and Guidelines states, “Public schools employers will be reimbursed for the ‘increased costs’ incurred as a result of compliance with the mandate.”

Parameters and Guidelines states, “Only expenditures which can be identified as a direct cost as a result of the mandate can be claimed.”

Parameters and Guidelines states, “Reasonable costs incurred for a reasonable number of training sessions held for supervisory and management personnel on contract administration/interpretation of the negotiated contract are reimbursable.”

Recommendation

We recommend that the district develop and implement an accounting system to ensure that all claimed costs are properly supported.

District’s Response

The District accepts the finding and the unallowable amount of \$8,035.

SCO’s Comment

The district agrees with the finding.

**FINDING 4—
Unallowable contracted
services costs**

The district claimed unsupported contracted services costs of \$49,948 for the audit period.

For FY 2002-03, the district claimed \$13,399 in unsupported contracted services related to contract administration. The district did not provide any documentation, such as attorney invoices, to support 99.25 hours of attorneys’ time.

For FY 2004-05, the district claimed \$5,539 in unsupported contracted services costs related to negotiation. The district claimed 18.9 hours of contracted service costs at \$135 per hour instead of the actual cost rate of \$84 per hour, an overcharge of \$945. The district also claimed 12.9 hours of contracted services, totaling \$1,742, that were provided free to the district. In addition, the district claimed a contractor-services cost of \$2,852 twice.

For FY 2004-05, the district claimed \$445 in ineligible negotiation costs related to payments to contractors for lodging at rates exceeding the state per diem lodging rate of \$84 per night.

For FY 2002-03 and FY 2004-05, the district claimed \$30,565 in ineligible contracted services costs for negotiation preparation: 186.21 hours totaling \$25,138 for FY 2002-03 and 40.2 hours totaling \$5,427 for FY 2004-05. The district provided no documentation showing that the preparation time claimed related to negotiation planning sessions, which are allowable costs.

Following is a summary of the unallowable contracted-services costs.

	Fiscal Year		Total
	2002-03	2004-05	
Contract services			
Component G3:			
Cost of negotiation	\$ (25,138)	\$ (11,411)	\$ (36,549)
Component G6:			
Contract administration	(13,399)	—	(13,399)
Audit adjustment	<u>\$ (38,537)</u>	<u>\$ (11,411)</u>	<u>\$ (49,948)</u>

Parameters and Guidelines states, “Public schools employers will be reimbursed for the ‘increased costs’ incurred as a result of compliance with the mandate.”

Parameters and Guidelines requires that the district to “Separately show the names of professionals or consultants, specify the functions the consultant performed relative to the mandate, specify the length of appointment, and provide itemized costs for such service.”

Parameters and Guidelines requires the district to “Show the costs of salaries and benefits for employer representatives participating in negotiations. Contracted services will be reimbursed. Costs for maximum of five public school employer representatives per unit, per negotiation session will be reimbursed.”

Parameters and Guidelines requires the district to “Show the costs of employer representatives and employees participating in negotiation planning sessions.”

Parameters and Guidelines states that “travel expenses for consultants and experts (including attorneys) hired by the claimant shall not be reimbursed in an amount higher than that received by State employees, as established under Title 2, Div. 2, Section 700ff, CAC.”

Recommendation

We recommend that the district ensure that all claimed costs are supported by appropriate documentation. Documentation should identify the mandated functions performed and support the actual number of hours devoted to each function. In addition we recommend that the district ensure that hourly rates claimed for contracted services are reimbursable under the mandate.

District's Response

In its first response, the district indicated the following.

In order for the District to determine the accuracy of the audit findings, please provide additional information detailing the \$25,138 disallowance in 2002-03 and \$16,505 (\$5,539, \$945, \$1,742, \$2,852 and \$5,427) in 2004-05.

The District accepts the finding disallowing the \$13,399 of legal services in 2002-03 for contract administration.

The District does not concur with the disallowance of \$92,214, or 50% of facilitator service costs we incurred for the audit period. We disagree with the rationale that the costs of the services should be shared evenly between the bargaining unit and the employer.

The Parameters and Guidelines on Collective Bargaining Mandate states that school employers will be reimbursed for the increased costs incurred as a result of compliance with the mandate. There is no reference that the state only reimburses 50% of the contract-facilitator costs. We feel strongly that the auditor's interpretation is contradicting the published guidelines.

In its subsequent response, the district indicated the following.

The District accepts the disallowance of \$25,138 of consultant cost associated with negotiation in 2002-03.

For 2004-05, the District is appealing the disallowance of \$2,700 for the rationale that the costs should be shared between the labor group and the employer. The said cost is for consulting services for regular negotiation sessions. There are no languages in the Parameters and Guidelines suggesting that the cost shall be share between employer and labor Group.

The District also appeals the finding disallowing \$5,427 for legal services provided for preparation of negotiation. The finding is again based on the interpretation that planning for negotiation requires the presence of representatives from both the employer and the labor group. Again, the District feels this contradict the Parameters and Guidelines and the finding is not warranted.

The District accepts the finding of disallowing the remaining \$8,378.

SCO's Comment

Based on further review of the issues and after obtaining legal input, we concur with the district Controller's comments, except for the \$5,427 amount relating to negotiation preparation. Consequently, we reduced the finding by \$92,214, from \$142,162 to \$49,948. We discussed the revised finding with the district's Controller on May 11, 2007. With the exception of the \$5,427 claimed for negotiation preparation, the district's Controller concurred with the revised finding.

We agree that reimbursable costs of employees participating in negotiation planning sessions relate to members representing management. As explained in the draft audit report, the district claimed 40.2 hours of contracted negotiation preparation time, totaling \$5,427. This activity is not identified in the *Parameters and Guidelines* as reimbursable. The district provided no documentation showing that the preparation time claimed related to reimbursable negotiation planning sessions costs.

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

Montebello Unified School District

123 SOUTH MONTEBELLO BOULEVARD / MONTEBELLO, CALIFORNIA 90640-4729
(323) 887-7900 • (562) 806-7900

April 27, 2007

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

Dear Mr. Spano:

After gathering the additional information requested per my April 2 letter of response, following are responses pertain to the two un-responded findings, findings #1 and #4.

Finding #1 – Unallowable salaries, benefits, and related indirect costs

The District accepts the audit finding disallowing \$11,982, \$108,418 and \$37,642 for negotiation in 2002-03, 2003-04 and 2004-05 respectively.

However, the District appeals the disallowance of \$23,661 in 2002-03, \$23,293 in 2003-04 and \$45,698 in 2004-05 for negotiation preparation as unallowable activity. During the exit audit conference, the explanation given to the District was that the Controller Office's interpretation of negotiation preparation as an activity that members representing both the management and labor groups should be present. Since all our preparation activities involved only the management members and did not meet the aforementioned Controller Office interpretation, all amount claimed are disallowed.

In the Parameters and Guidelines of Collective Bargaining Mandated Cost, it states clearly that the costs of salaries and benefits for employer representatives and employees participating in negotiation planning sessions are reimbursable. There are no languages suggesting that the presence of members representing both the labor groups and management are required for planning purposes.

The District feels strongly the rationale for disallowing these claims contradicted the Parameters and Guidelines and is therefore appealing the finding.

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Finding #4 – Unallowable substitute teacher costs and related indirect costs

The District accepts the disallowance of \$25,138 of consultant cost associated with negotiation in 2002-03.

For 2004-05, the District is appealing the disallowance of \$2,700 for the rationale that the costs should be shared between the labor group and the employer. The said cost is for consulting services for regular negotiation sessions. There are no languages in the Parameters and Guidelines suggesting that the cost shall be share between employer and labor Group.

The District also appeals the finding disallowing \$5,427 for legal services provided for preparation of negotiation. The finding is again based on the interpretation that planning for negotiation requires the presence of representatives from both the employer and the labor group. Again, the District feels this contradict the Parameters and Guidelines and the finding is not warranted.

The District accepts the finding of disallowing the remaining \$8,378.

Please feel free to call me at (323) 887-7912 should you have any questions.

Sincerely,



Peter Wong
Controller

cc. Edward Velasquez, Superintendent of Schools
Glenn J. Sheppard, Assistant Superintendent – Business Services
Gene Kerr, Assistant Superintendent – Human Resources



MONTEBELLO UNIFIED SCHOOL DISTRICT
123 South Montebello Boulevard, Montebello, CA 90640-4729
(323) 887-7912 / (562) 806-7900

April 2, 2007

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

Dear Mr. Spano:

The following is in response to the draft audit report dated March 16, 2007.

Finding #1 – Unallowable salaries, benefits, and related indirect costs

In order for the District to verify the accuracy of the finding, we hereby request additional information detailing the disallowable salaries and benefits by each employee name and hours disallowed.

Finding #2 – Unallowable substitute teacher costs and related indirect costs

For fiscal year 2002-03, the District claimed 111.5 days of substitute teacher costs for negotiation in the amount of \$15,205. The audit disallowed 76.5 days, or \$10,280 for the lacking of supporting documents. Attached please find two separate schedules of the Montebello Teachers Association (MTA) negotiation. There were 16 negotiation sessions between October 24, 2002 and November 20, 2002. Also attached is the "Absence Report by Site" generated from the substitute teacher finder system, which listed the dates of absences for the five MTA negotiation team members (Irving Bartikofsky, Gloria Estrada, Teresa Salas-Ortiz, Kenneth Seto and Dianne Stevens) and their substitute teachers. These documents together should substantiate 80 out of the 111.5 days claimed. The District is appealing the disallowed substitute teacher costs should only be 31.5 days or \$4,160 (\$130/day) plus related indirect costs.

For fiscal year 2003-04, the District claimed 164 days of substitute costs for negotiation in the amount of \$20,053. The audit disallowed all of it. Attached are the negotiation schedule and the Absence Report by Site for 2003-04, they substantiate 15 days of substitute teacher costs for the five members (Dianne Stevens, Gloria Estrada Garza, Irving Bartikofsky, Elizabeth Gasca and Kenneth Seto) of the MTA negotiation team, or \$1,950. The District is appealing to reduce the disallowance by this amount.

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For fiscal year 2004-05, the District is able to substantiate 7 days of substitute teacher costs for the MTA negotiation team (Terry Salas Ortiz, Brian Stevens, Walter Lowery and Dolores Rego), using the Absence Report by Site and the negotiation schedule (attached), or \$910.00. The District is appealing the audit adjustment be reduced by this amount.

Finding #3 – Unallowable materials and supplies

The District accepts the finding and the unallowable amount of \$8,035.

Finding #4 – Unallowable contracted services costs

In order for the District to determine the accuracy of the audit findings, please provide additional information detailing the \$25,138 disallowance in 2002-03 and \$16,505 (\$5,539, \$945, \$1,742, \$2,852 and \$5,427) in 2004-05.

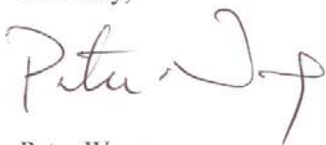
The District accepts the finding disallowing the \$13,399 of legal services in 2002-03 for contract administration.

The District does not concur with the disallowance of \$92,214, or 50% of facilitator service costs we incurred for the audit period. We disagree with the rationale that the costs of the services should be shared evenly between the bargaining unit and the employer.

The Parameters and Guidelines on Collective Bargaining Mandate states that school employers will be reimbursed for the increased costs incurred as a result of compliance with the mandate. There is no reference that the state only reimburses 50% of the contract-facilitator costs. We feel strongly that the auditor's interpretation is contradicting the published guidelines.

Please forward the requested information directly to my attention and please feel free to call me at (323) 887-7912 should you have any questions.

Sincerely,



Peter Wong
Controller

Attachments

cc. Edward Velasquez, Superintendent of Schools
Glenn J. Sheppard, Assistant Superintendent – Business Services
Gene Kerr, Assistant Superintendent – Human Resources

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