

SAN JOSÉ/EVERGREEN COMMUNITY COLLEGE DISTRICT

Audit Report

COLLECTIVE BARGAINING PROGRAM

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

July 1, 2005, through June 30, 2009



JOHN CHIANG
California State Controller

January 2014



JOHN CHIANG
California State Controller

January 31, 2014

Jeffrey Lease, D.C., President
Board of Trustees
San José/Evergreen Community College District
4750 San Felipe Road
San Jose, CA 95135-1599

Dear Dr. Lease:

The State Controller's Office audited the costs claimed by the 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, 2005, through June 30, 2009.

The district claimed \$1,085,307 for the mandated program. Our audit found that \$497,507 is allowable and \$587,800 is unallowable. The costs are unallowable because the district claimed unallowable salaries, benefits, and contract services; understated the Winton Act base-year direct costs; and misstated indirect costs. The State paid the district \$29,055. The State will pay allowable costs claimed that exceed the amount paid, totaling \$468,452, 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). 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.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/kw

cc: Rita Cepeda, Chancellor
 San José/Evergreen Community College District
Doug Smith, Vice Chancellor
 Administrative Services
 San José/Evergreen Community College District
Kim Garcia, Vice Chancellor
 Human Resources
 San José/Evergreen Community College District
Peter Fitzsimmons, Director
 Fiscal Services
 San José/Evergreen Community College District
Hoa Pham, Staff Accountant
 Fiscal Services
 San José/Evergreen Community College District
Christine Atalig, Specialist
 College Finance and Facilities Planning
 California Community Colleges Chancellor's Office
Mollie Quasebarth, Principal Program Budget Analyst
 Education Systems Unit
 California Department of Finance
Mario Rodriguez, Finance Budget Analyst
 Education Systems Unit
 California Department of Finance
Jay Lal, Manager
 Division of Accounting and Reporting
 State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the 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, 2005, through June 30, 2009.

The district claimed \$1,085,307 for the mandated program. Our audit found that \$497,507 is allowable and \$587,800 is unallowable. The costs are unallowable because the district claimed unallowable salaries, benefits, and contract services; understated the Winton Act base-year direct costs; and misstated indirect costs. The State paid the district \$29,055. The State will pay allowable costs claimed that exceed the amount paid, totaling \$468,452, 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, the 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 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

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The CSM adopted the parameters and guidelines on October 22, 1980 and amended them ten times, most recently on January 29, 2010. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program 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, 2005, through June 30, 2009.

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 conclusions 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 found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the San José/Evergreen Community College District claimed \$1,085,307 for costs of the Collective Bargaining Program. Our audit found that \$497,507 is allowable and \$587,800 is unallowable. The State paid the district \$29,055. The State will pay allowable costs claimed that exceed the amount paid, totaling \$468,452, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on January 17, 2014. Peter Fitzsimmons, Director of Fiscal Services, responded email on January 27, 2014, disagreeing with the audit results. The district did not provide a reason for the disagreement.

Restricted Use

This report is solely for the information and use of the 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, CPA
Chief, Division of Audits

January 31, 2014

**Schedule 1—
Summary of Program Costs
July 1, 2005, through June 30, 2009**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 134,384	\$ 31,007	\$ (103,377)	Finding 1
Travel and training	21	21	—	
Contract services	11,074	11,074	—	
Subtotal	145,479	42,102	(103,377)	
Winton Act base year direct costs adjusted by the implicit price deflator	(18,538)	(18,538)	—	
Increased direct costs, G1 through G3	126,941	23,564	(103,377)	
Component activities G4 through G7:				
Salaries and benefits	44,343	1,778	(42,565)	Finding 1
Travel and training	11	11	—	
Contract services	406	406	—	
Increased direct costs, G4 through G7	44,760	2,195	(42,565)	
Total increased direct costs, G1 through G7	171,701	25,759	(145,942)	
Indirect costs	45,198	9,729	(35,469)	Finding 4
Total direct and indirect costs	216,899	35,488	(181,411)	
Total program costs	<u>\$ 216,899</u>	35,488	<u>\$ (181,411)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 35,488</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 98,622	\$ 90,375	\$ (8,247)	Finding 1
Travel and training	178	178	—	
Contract services	79,726	79,726	—	
Subtotal	178,526	170,279	(8,247)	
Winton Act base year direct costs adjusted by the implicit price deflator	(19,264)	(19,264)	—	
Increased direct costs, G1 through G3	159,262	151,015	(8,247)	
Component activities G4 through G7:				
Salaries and benefits	77,880	—	(77,880)	Finding 1
Contract services	1,728	—	(1,728)	Finding 2
Increased direct costs, G4 through G7	79,608	—	(79,608)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2006, through June 30, 2007 (continued)</u>				
Total increased direct costs, G1 through G7	238,870	151,015	(87,855)	
Indirect costs	49,232	56,902	7,670	Finding 4
Total program costs	<u>\$ 288,102</u>	207,917	<u>\$ (80,185)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 207,917</u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 82,887	\$ 73,128	\$ (9,759)	Finding 1
Contract services	99,322	99,322	—	
Subtotal	182,209	172,450	(9,759)	
Winton Act base year direct costs adjusted by the implicit price deflator	(20,621)	(20,621)	—	
Increased direct costs, G1 through G3	<u>161,588</u>	<u>151,829</u>	<u>(9,759)</u>	
Component activities G4 through G7:				
Salaries and benefits	99,810	—	(99,810)	Finding 1
Contract services	10,717	5,089	(5,628)	Finding 2
Increased direct costs, G4 through G7	<u>110,527</u>	<u>5,089</u>	<u>(105,438)</u>	
Total increased direct costs, G1 through G7	272,115	156,918	(115,197)	
Indirect costs	59,407	23,618	(35,789)	Finding 4
Total program costs	<u>\$ 331,522</u>	180,536	<u>\$ (150,986)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 180,536</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 39,572	\$ 38,427	\$ (1,145)	Finding 1
Contract services	47,200	39,838	(7,362)	Finding 2
Subtotal	86,772	78,265	(8,507)	
Winton Act base year direct costs adjusted by the implicit price deflator	(20,621)	(21,166)	(545)	Finding 3
Increased direct costs, G1 through G3	<u>66,151</u>	<u>57,099</u>	<u>(9,052)</u>	
Component activities G4 through G7:				
Salaries and benefits	116,356	—	(116,356)	Finding 1
Contract services	15,597	7,135	(8,462)	Finding 2
Increased direct costs, G4 through G7	<u>131,953</u>	<u>7,135</u>	<u>(124,818)</u>	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2008, through June 30, 2009 (continued)</u>				
Total increased direct costs, G1 through G7	198,104	64,234	(133,870)	
Indirect costs	50,680	9,332	(41,348)	Finding 4
Total program costs	<u>\$ 248,784</u>	73,566	<u>\$ (175,218)</u>	
Less amount paid by the State		(29,055)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 44,511</u>		
<u>Summary: July 1, 2005, through June 30, 2009</u>				
Total increased direct costs, G1 through G7	\$ 880,790	\$ 397,926	\$ (482,864)	
Indirect costs	204,517	99,581	(104,936)	
Total program costs	<u>\$ 1,085,307</u>	497,507	<u>\$ (587,800)</u>	
Less amount paid by the State		(29,055)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 468,452</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

**FINDING 1—
Unallowable salaries
and benefits**

The district claimed \$693,854 in salaries and benefits for the audit period. We determined that \$234,715 is allowable and \$459,139 is unallowable. The costs are unallowable because the district claimed reimbursement for costs that are not supported by any source documentation; inadequately supported; not identified in the parameters and guidelines as reimbursable; understated; and misclassified.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the audit period by reimbursable component:

Reimbursable Component	Amount Claimed	Amount Allowable	Audit Adjustment
Salaries and benefits:			
G3 - Cost of Negotiations	\$ 355,465	\$ 232,937	\$(122,528)
G4 - Impasse Proceedings	1,676	-	(1,676)
G6 - Contract Administration	336,713	1,778	(334,935)
Total	\$ 693,854	\$ 234,715	\$(459,139)

Component G3—Cost of Negotiations

For the Cost of Negotiations cost component, the district claimed \$355,465 in salaries and benefits. We determined that \$232,937 is allowable and \$122,528 is unallowable. The costs are unallowable because the district claimed reimbursement for costs that are not supported by any source documentation; inadequately supported; not identified in the parameters and guidelines as reimbursable; understated; and misclassified.

Substitutes for the Release Time of Exclusive Bargaining Unit Representatives during Negotiations

The district overstated substitute costs by \$122,232 as follows:

- **Inadequately Supported Costs** – For fiscal year (FY) 2005-06, the district claimed \$110,147 for substitute costs using a backfill release time percentage identified on a union representative’s load report. We initially determined that the entire amount is unallowable because the load report did not identify specific dates and times that the substitute filled in for the union representative during at-table negotiations.

However, because we recognized that the district did incur substitute costs, we worked with the documentation provided to determine allowable costs. To determine allowable hours, we reviewed the at-table negotiation sign-in sheets and determined that the exclusive bargaining union representatives participated in at-table negotiations

an average of 52 hours in FY 2005-06. Therefore, we allowed 52 hours for each backfill instructor. In total, we determined that \$9,761 is allowable and \$100,386 is unallowable.

- Double-claimed Costs – For FY 2006-07, the district claimed \$7,016 for one substitute to backfill for two exclusive bargaining unit representatives to participate in at-table negotiations for the same union on the same date and time.
- Backfill for Self – The district claimed \$14,830 (\$10,649 for FY 2007-08 and \$4,181 for FY 2008-09) for an employee to backfill for himself. The employee worked overtime to account for his participation in union activities. Essentially, the district claimed the additional overtime hours as if he were his own substitute for his time spent participating in at-table negotiations.

Negotiation Planning Sessions

The district overstated negotiation planning session costs by \$1,470 as follows:

- Ineligible Individual Negotiation Preparation Time – The district overstated salaries and benefits by \$2,362 (\$2,122 for FY 2005-06 and \$240 for FY 2006-0-7) because it claimed reimbursement for the district's team members to individually prepare for at-table negotiations. The parameters and guidelines do not identify individual negotiation preparation costs as a reimbursable activity. However, the parameters and guidelines do state that costs for employer representatives participating in planning sessions are reimbursable. A planning session includes more than one person.
- Overstated Productive Hourly Rates – For FY 2008-09, the district overstated the employees' productive hourly rates because it did not use the correct unemployment insurance rate of 0.412%, resulting in an overstatement of \$394.
- Unsupported Negotiation Planning Session Time – The district overstated salaries and benefits by \$304 (\$236 for FY 2005-06 and \$68 for FY 2007-08) because it claimed reimbursement for hours that were in excess of the hours reported on the sign-in sheet. In addition, the district overstated salaries and benefits by \$172 for FY 2008-09 because it did not support that an employee participated in the negotiation planning session. The negotiation planning session sign-in sheet did not show that the employee attended the session.
- Costs Claimed for Wrong Fiscal Year – For FY 2005-06, the district overstated salaries and benefits by \$77 because it claimed reimbursement for the Director of Administrative Services to participate in negotiation planning sessions in FY 2004-05.
- Understated Negotiation Planning Sessions Time – The district understated salaries and benefits by \$1,839 (\$264 for FY 2007-08 and \$1,575 for FY 2008-09) because it claimed fewer hours than what was reported on the sign-in sheet.

At-table Negotiations

The district understated at-table negotiation costs by \$1,174 as follows:

- **Unsupported At-table Negotiation Time** – The district overstated salaries and benefits by \$2,492 (\$326 for FY 2005-06, \$1,524 for FY 2006-07, \$361 for FY 2007-08, and \$281 for FY 2008-09) because it did not provide any documentation to support that district employees participated in at-table negotiation sessions. The at-table negotiation sign-in sheets did not show that the employees attended the sessions.
- **Overstated Productive Hourly Rates** – For FY 2008-09, the district overstated the employees' productive hourly rates because it did not use the correct unemployment insurance rate of 0.412%, resulting in an overstatement of \$247.
- **Costs Claimed for Wrong Fiscal Year** – For FY 2005-06, the district overstated salaries and benefits by \$230 because it claimed reimbursement for the Director of Administrative Services to prepare for at-table negotiations in FY 2004-05.
- **Understated At-table Negotiation Time** – The district understated salaries and benefits by \$3,782 (\$172 for FY 2006-07, \$1,055 for FY 2007-08, and \$2,555 for FY 2008-09) because it did not claim all of the hours reported on the at-table negotiation sign-in sheets.
- **Misclassified Costs** – The district understated salaries and benefits by \$361 because it claimed reimbursement for at-table negotiations under the wrong cost component (G6 – Contract Administration). We allowed the costs under the Contract Administration cost component.

Component G4–Impasse Proceedings

For FY 2005-06, the district did not provide any documentation to support \$1,676 claimed for the Impasse Proceedings cost component. Allowable costs for the Impasse Proceedings costs component are for mediations and fact-finding.

Component G6–Contract Administration

For the Contract Administration cost component, the district claimed \$336,713 in salaries and benefits. We determined that \$1,778 is allowable and \$334,935 is unallowable. The costs are unallowable because the district claimed reimbursement for costs that are not supported by any source documentation; inadequately supported; not identified in the parameters and guidelines as reimbursable; and misclassified.

Substitutes for the Release Time of an Exclusive Bargaining Unit during Adjudication of Contract Disputes

The district claimed salaries and benefits of \$327,722 (\$37,259 for FY 2005-06, \$74,297 for FY 2006-07, \$99,810 for FY 2007-08, and \$116,356 for FY 2008-09) for substitute costs using a backfill release

time percentage identified on the union representatives' load reports. The district did not provide any documentation to support the time spent by the exclusive bargaining unit to participate in adjudication of contract disputes.

Monthly Contract Administration Meetings

The district claimed salaries and benefits of \$5,592 (\$2,370 for FY 2005-06 and \$3,222 for FY 2006-07) for two district representatives to participate in monthly contract administration meetings. Reimbursement is limited to training sessions held for supervisory and management personnel on contract administration/interpretation of the negotiated contract. Time spent by employees attending personal development and informational programs is not reimbursable.

Ineligible Activities

The district claimed ineligible salaries and benefits of \$738 as follows:

- For FY 2005-06, the district claimed salaries and benefits of \$623 for delivering reduction-in-force notices, delivering layoff notices to traffic schools, and participation in traffic school layoff meetings. Reimbursement is limited to contract administration and adjudication of contract disputes. Implementing terms and conditions outlined in the collective bargaining agreement is not allowable.
- For FY 2005-06, the district claimed salaries and benefits of \$115 for the Director of Administrative Services to provide training that occurred in FY 2004-05.

Employer Personnel Involved in Adjudication of Contract Disputes

For FY 2005-06, the district claimed salaries and benefits of \$383 for district employees to participate in the adjudication of contract disputes that are not related to collective bargaining. The grievances were for performance issues.

Unsupported Costs

For FY 2005-06, the district claimed unsupported salaries and benefits of \$139 for a Human Resource Manager to participate in negotiations. The district did not provide documentation to support the costs claimed. In addition, had the cost been supported, it should have been claimed in the Cost of Negotiations cost component.

Misclassified Costs

For FY 2006-07, the district overstated salaries and benefits by \$361 because it claimed reimbursement for at-table negotiations in the Contract Administration cost component. This amount is allowable in the Cost of Negotiations cost component.

The parameters and guidelines state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

For negotiation planning sessions in the Cost of Negotiations cost component, the parameters and guidelines (section G(3)(b)) direct claimants to:

Show the costs of salaries and benefits for employer representatives and employees participating in negotiation planning sessions.

For substitute costs in the Cost of Negotiations cost component, the parameters and guidelines (section G(3)(c)) direct claimants to:

Indicate the cost of substitutes for release time of exclusive bargaining unit representatives during negotiations. Give the job classification of the bargaining unit representative that required a substitute and dates the substitute worked.

For salaries and benefits in the Contract Administration cost component, the parameters and guidelines (section G(6)(a)) state that the salaries and benefits of employer personnel involved in adjudication of contract disputes are reimbursable.

For substitute costs in the Contract Administration cost component, the parameters and guidelines (section G(6)(b)) direct claimants to:

Indicate substitutes necessary for release time of the representatives of an exclusive bargaining unit during adjudication of contract disputes. The job classification of the employee witnesses and the dates they were absent shall also be indicated.

Recommendation

We recommend that the district ensure that all costs claimed are reimbursable according to the parameters and guidelines, and are properly supported. Supporting documentation should identify the mandated functions performed and support the actual number of hours devoted to each function.

**FINDING 2—
Unallowable contract services**

The district claimed \$265,770 in contract services for the audit period. We determined that \$242,590 is allowable and \$23,180 is unallowable. The costs are unallowable because the district claimed reimbursement for costs that are not supported by any source documentation; not identified in the parameters and guidelines as reimbursable; understated; and misclassified.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the audit period by reimbursable component:

Reimbursable Component	Amount Claimed	Amount Allowable	Audit Adjustment
Contract services:			
G3 - Cost of Negotiations	\$ 237,322	\$ 229,960	\$ (7,362)
G5 - Collective Bargaining Agreement Disclosure	68	68	-
G6 - Contract Administration	28,380	12,562	(15,818)
Total	\$ 265,770	\$ 242,590	\$ (23,180)

Component G3—Cost of Negotiations

For the Cost of Negotiations cost component, the district claimed \$237,322 in contract services. We determined that \$229,960 is allowable and \$7,362 is unallowable. The costs are unallowable because the district claimed reimbursement for costs that are not supported by any source documentation; not identified in the parameters and guidelines as reimbursable; understated; and misclassified.

Employer Personnel Involved in Adjudication of Contract Disputes

For FY 2008-09, the district claimed contract services of \$5,354 for the attorney to participate in adjudication of contract disputes that are not related to collective bargaining. The grievances were for performance issues. Had the grievances been related to collective bargaining activities, this amount would have been reclassified to the Contract Administration cost component.

Negotiation Planning Sessions

For FY 2008-09, the district overstated negotiation planning session costs by \$2,008 as follows:

- Misclassified Costs – The district overstated contract services by \$2,513 as follows:
 - The district overstated contract services by \$2,567 because it claimed reimbursement for grievances related to collective bargaining in the Cost of Negotiations cost component instead of the Contract Administration cost component.
 - The district understated contract services by \$54 because it claimed reimbursement for negotiation preparation time spent by the attorney in the Contract Administration cost component.

- **Unsupported Costs** – The district overstated contract services by \$35 because it overstated the hours reported on the attorney invoice for the attorney to prepare for negotiations.
- **Understated Costs** – The district understated contract services by \$540 because it did not claim all of the hours reported on the attorney invoice for the attorney to prepare for negotiations.

Component G6–Contract Administration

For the Contract Administration cost component, the district claimed \$23,880 in contract services. We determined that \$12,562 is allowable and \$15,818 is unallowable. The costs are unallowable because the district claimed reimbursement for costs that are not supported by any source documentation; not identified in the parameters and guidelines as reimbursable; and misclassified.

Employer Personnel Involved in Adjudication of Contract Disputes

The district overstated contract services of \$8,379 as follows:

- **Ineligible Costs** – For FY 2008-09, the district claimed contract services of \$10,892 for district employees to participate in the adjudication of contract disputes that are not related to collective bargaining. The grievances were for performance issues.
- **Misclassified Costs** – The district understated contract services by \$2,513 as follows:
 - The district understated contract services by \$2,567 because it claimed reimbursement for grievances related to collective bargaining in the Cost of Negotiations cost component instead of the Contract Administration cost component.
 - The district overstated contract services by \$54 because it claimed reimbursement for negotiation preparation time spent by the attorney in the Contract Administration cost component instead of the Cost of Negotiation cost component.

Training Sessions Provided by the Attorney

The district claimed contract services of \$7,356 (\$1,728 for FY 2006-07 and \$5,628 for FY 2007-08) for its attorney to prepare for California School Employees Association (CSEA) training and to present the CSEA contract provisions to district management. Training provided by the attorney on the negotiated contract is not an allowable activity.

Attorney Travel Expenses

For FY 2008-09, the district overstated attorney travel expenses by \$83 because it claimed travel time on a day that was not supported by the attorney's invoice.

The parameters and guidelines (Section G. Claim Components (Reimbursable Costs)) state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

For the Contract Administration cost component, the parameters and guidelines (section G(6)) state that reimbursable functions include grievances and administration and enforcement of the contract. In addition, the parameters and guidelines (section G(6)(a)) state that contracted services for adjudication of contract disputes are reimbursable.

For substitute costs in the Contract Administration cost component, the parameters and guidelines (section G(6)(b)) direct claimants to:

Indicate substitutes necessary for release time of the representatives of an exclusive bargaining unit during adjudication of contract disputes. The job classification of the employee witnesses and the dates they were absent shall also be indicated.

Recommendation

We recommend that the district ensure that all costs claimed are reimbursable according to the parameters and guidelines, and are properly supported. Supporting documentation should identify the mandated functions performed and support the actual number of hours devoted to each function.

**FINDING 3—
Understated Winton
Act base-year direct
costs**

The district understated the Winton Act base-year direct costs by \$545 for FY 2008-09. The district incorrectly calculated the Winton Act base-year direct costs by applying the FY 2007-08 implicit price deflator (IPD) of 4.315 instead of the FY 2008-09 IPD of 4.429. The IPD is reported in the SCO's annual claiming instructions.

The following table summarizes the audit adjustment calculation:

	Fiscal Year 2008-09
Base Year, 1974-75	\$ 4,779
Implicit Price Deflator	× (4.429)
Allowable Winton Act base year costs	(21,166)
Claimed Winton Act base year costs	<u>20,621</u>
Audit adjustment	<u>\$ (545)</u>

The parameters and guidelines (Section H. Supporting Date for Claims – Report Format for Submission of Claim) state:

- a. For component activities G1, G2, and G3:
 1. Determination of the “increased costs” for each of these three components requires the costs of current year Rodda Act activities to be offset [reduced] by the cost of the base-year Winton Act activities. The Winton Act base-year is generally fiscal year 1974-75.

Winton Act base-year costs are adjusted by the Implicit Price Deflator prior to offset against the current year Rodda Act costs for these three components. The Implicit Price Deflator shall be listed in the annual claiming instructions of the State Controller.

Recommendation

We recommend that the district ensure that all Winton Act base-year costs are adjusted by the IPD, as listed in the SCO's annual claiming instructions, and are properly offset against the district's current-year Rodda Act direct costs claimed.

**FINDING 4—
Misstated indirect
costs**

The district claimed \$104,936 in unallowable indirect costs for the audit period. The costs are unallowable because of related unallowable salaries and benefits (described in Finding 1); related unallowable contract services (described in Finding 2); because the FAM-29C rate was incorrectly calculated; and because the district did not apply the FAM-29C rate to the proper direct cost base.

For each fiscal year in the audit period, the district claimed indirect costs using the FAM-29C methodology outlined in the SCO's claiming instructions. The FAM-29C is calculated using information contained the California Community College Annual Financial and Budget Report (CCFS-311) and the notes to the basic financial statements (for depreciation information). We adjusted the FAM-29C rates as follows:

- For FY 2005-06 and FY 2006-07, the district did not include depreciation. We revised the FAM-29C to include the depreciation expense identified in the notes to the basic financial statements.
- For FY 2007-08 and FY 2008-09, the district used the wrong depreciation expense amount. We revised the FAM-29C to include the correct depreciation expense identified in the notes to the basic financial statements.

The following table summarizes the FAM-29C indirect cost rate adjustment for each fiscal year in the audit period:

<u>Fiscal Year</u>	<u>Claimed Indirect Cost Rate</u>	<u>Allowable Indirect Cost Rate</u>	<u>Difference</u>
2005-06	28.21%	37.77%	9.56%
2006-07	28.64%	37.68%	9.04%
2007-08	33.39%	43.57%	10.18%
2008-09	33.53%	49.10%	15.57%

In addition, for each fiscal year in the audit period, the district did not apply the FAM-29C indirect cost rate to the proper direct cost base, as follows:

- For FY 2005-06 and FY 2006-07, the district applied the FAM-29C to total direct costs, excluding contract services. The district should have applied the indirect cost rate to total direct costs, including contract services. The error occurred because the district followed the claiming instructions for the Collective Bargaining program (Form CB-1 and related instructions) that inadvertently excluded contract services from the calculation of indirect costs. These instructions have since been updated.
- For FY 2007-08 and FY 2008-09, the district applied the FAM-29C to total direct costs. The claiming instructions identify a direct cost base of salaries and benefits only.

The following table summarizes the unallowable indirect costs for each fiscal year in the audit period:

	Fiscal Year				Total
	2005-06	2006-07	2007-08	2008-09	
Allowable increased direct costs ¹	\$ 25,759	\$ 151,015			
Allowable increased salaries and benefits ²			\$ 54,207	\$ 19,006	
Allowable indirect cost rate	<u>37.77%</u>	<u>37.68%</u>	<u>43.57%</u>	<u>49.10%</u>	
Allowable indirect costs	\$ 9,729	\$ 56,902	\$ 23,618	\$ 9,332	
Indirect costs claimed	<u>(45,198)</u>	<u>(49,232)</u>	<u>(59,407)</u>	<u>(50,680)</u>	
Audit adjustment	<u>\$(35,469)</u>	<u>\$ 7,670</u>	<u>\$(35,789)</u>	<u>\$(41,348)</u>	<u>\$ (104,936)</u>

¹ The FY 2005-06 and FY 2006-07 FAM-29C rates are applied to total direct costs.

² The FY 2007-08 and FY 2008-09 FAM-29C rates are applied to salaries and benefits.

For FY 2005-06 and FY 2006-07, the SCO’s claiming instructions state:

...The FAM-29C methodology uses a direct cost base comprised of salary and benefit costs and operating expenses...

...The indirect cost rate computation includes any depreciation or use allowance applicable to district buildings and equipment. Districts calculate depreciation or use allowance costs separately from the CCFS-311 report and should calculate them in accordance with OMB Circular A-21.

For FY 2007-08 and FY 2008-09, the SCO’s claiming instructions state:

...The methodology used in form FAM-29C is a direct cost base comprised of salary and benefit costs...

...The indirect cost rate computation includes any depreciation or use allowance applicable to district buildings and equipment. Districts calculate depreciation or use allowance costs separately from the CCFS-311 report and should calculate them in accordance with OMB Circular A-21.

Recommendation

We recommend that the district calculate the FAM-29C indirect cost rate in accordance with the SCO’s Claiming Instructions and apply the indirect cost rate to the proper direct cost base.

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

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