

SAN FRANCISCO 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, 2011



JOHN CHIANG
California State Controller

May 2014



JOHN CHIANG
California State Controller

May 22, 2014

John Rizzo, President
Board of Trustees
San Francisco Community College District
50 Phelan Avenue
San Francisco, CA 94112

Dear Mr. Rizzo:

The State Controller's Office audited the costs claimed by the San Francisco 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, 2011.

The district claimed \$1,492,486 for the mandated program. Our audit found that \$1,132,514 is allowable and \$359,972 is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported costs, and misstated indirect costs. The State paid the district \$52,861. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,079,653, 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/sk

cc: Arthur Q. Tyler, D.M., Chancellor
San Francisco Community College District
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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	8

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the San Francisco 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, 2011.

The district claimed \$1,492,486 for the mandated program. Our audit found that \$1,132,514 is allowable and \$359,972 is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported costs, and misstated indirect costs. The State paid the district \$52,861. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,079,653, 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, 2011.

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 Francisco Community College District claimed \$1,492,486 for costs of the Collective Bargaining Program. Our audit found that \$1,132,514 is allowable and \$359,972 is unallowable. The State paid the district \$52,861. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,079,653, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on May 8, 2014. The district requested sixty days in which to respond. We informed the district that if it did not provide a response within the ten-day response period, we would issue the final report in May of 2014. However, we also informed the district that we would revise the final report in June of 2014 if it provides documentation supporting additional allowable costs by June 23, 2014.

Restricted Use

This report is solely for the information and use of the San Francisco 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

May 22, 2014

**Schedule 1—
Summary of Program Costs
July 1, 2005, through June 30, 2011**

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	\$ 179,849	\$ 123,729	\$ (56,120)	Finding 1
Contract services	80,224	80,224	—	
Subtotal	260,073	203,953	(56,120)	
Winton Act base-year direct costs adjusted by the implicit price deflator	(123,938)	(123,938)	—	
Increased direct costs, G1 through G3	136,135	80,015	(56,120)	
Component activities G4 through G7:				
Salaries and benefits	52,130	52,130	—	
Contract services	27,223	26,575	(648)	Finding 2
Increased direct costs, G4 through G7	79,353	78,705	(648)	
Total increased direct costs, G1 through G7	215,488	158,720	(56,768)	
Indirect costs	28,549	64,012	35,463	Finding 3
Total program costs	<u>\$ 244,037</u>	222,732	<u>\$ (21,305)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 222,732</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 201,299	\$ 127,279	\$ (74,020)	Finding 1
Contract services	104,025	95,318	(8,707)	Finding 2
Subtotal	305,324	222,597	(82,727)	
Winton Act base-year direct costs adjusted by the implicit price deflator	(128,794)	(128,794)	—	
Increased direct costs, G1 through G3	176,530	93,803	(82,727)	
Component activities G4 through G7:				
Salaries and benefits	45,948	45,948	—	
Contract services	18,873	17,597	(1,276)	Finding 2
Increased direct costs, G4 through G7	64,821	63,545	(1,276)	
Total increased direct costs, G1 through G7	241,351	157,348	(84,003)	
Indirect costs	36,255	72,097	35,842	Finding 3
Total program costs	<u>\$ 277,606</u>	229,445	<u>\$ (48,161)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 229,445</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 197,068	\$ 120,300	\$ (76,768)	Finding 1
Contract services	82,179	82,179	—	
Subtotal	279,247	202,479	(76,768)	
Winton Act base-year direct costs adjusted by the implicit price deflator	(137,869)	(137,869)	—	
Increased direct costs, G1 through G3	141,378	64,610	(76,768)	
Component activities G4 through G7:				
Salaries and benefits	55,433	55,433	—	
Contract services	32,155	24,892	(7,263)	Finding 2
Increased direct costs, G4 through G7	87,588	80,325	(7,263)	
Total increased direct costs, G1 through G7	228,966	144,935	(84,031)	
Indirect costs	38,780	49,209	10,429	Finding 3
Total program costs	<u>\$ 267,746</u>	194,144	<u>\$ (73,602)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 194,144</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 170,040	\$ 100,295	\$ (69,745)	Finding 1
Contract services	76,680	76,680	—	
Subtotal	246,720	176,975	(69,745)	
Winton Act base-year direct costs adjusted by the implicit price deflator	(141,511)	(141,511)	—	
Increased direct costs, G1 through G3	105,209	35,464	(69,745)	
Component activities G4 through G7:				
Salaries and benefits	65,163	65,163	—	
Contract services	28,620	26,676	(1,944)	Finding 2
Increased direct costs, G4 through G7	93,783	91,839	(1,944)	
Total increased direct costs, G1 through G7	198,992	127,303	(71,689)	
Indirect costs	30,225	42,370	12,145	Finding 3
Total program costs	<u>\$ 229,217</u>	169,673	<u>\$ (59,544)</u>	
Less amount paid by the State		(26,769)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 142,904</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 180,811	\$ 99,770	\$ (81,041)	Finding 1
Contract services	89,802	89,802	—	
Subtotal	270,613	189,572	(81,041)	
Winton Act base-year direct costs adjusted by the implicit price deflator	(143,077)	(143,077)	—	
Increased direct costs, G1 through G3	127,536	46,495	(81,041)	
Component activities G4 through G7:				
Salaries and benefits	64,773	64,773	—	
Contract services	51,489	47,736	(3,753)	Finding 2
Increased direct costs, G4 through G7	116,262	112,509	(3,753)	
Total increased direct costs, G1 through G7	243,798	159,004	(84,794)	
Indirect costs	33,366	44,590	11,224	Finding 3
Total program costs	<u>\$ 277,164</u>	203,594	<u>\$ (73,570)</u>	
Less amount paid by the State		(26,092)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 177,502</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 168,546	\$ 78,094	\$ (90,452)	Finding 1
Contract services	56,106	56,106	—	
Subtotal	224,652	134,200	(90,452)	
Winton Act base-year direct costs adjusted by the implicit price deflator	(146,431)	(146,431)	—	
Increased direct costs, G1 through G3	78,221	(12,231)	(90,452)	
Component activities G4 through G7:				
Salaries and benefits	61,749	61,749	—	
Contract services	30,429	28,958	(1,471)	Finding 2
Increased direct costs, G4 through G7	92,178	90,707	(1,471)	
Total increased direct costs, G1 through G7	170,399	78,476	(91,923)	
Indirect costs	26,317	34,450	8,133	Finding 3
Total program costs	<u>\$ 196,716</u>	112,926	<u>\$ (83,790)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 112,926</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>Summary: July 1, 2005, through June 30, 2011</u>				
Total increased direct costs, G1 through G7	\$ 1,298,994	\$ 825,786	\$ (473,208)	
Indirect costs	<u>193,492</u>	<u>306,728</u>	<u>113,236</u>	
Total program costs	<u>\$ 1,492,486</u>	1,132,514	<u>\$ (359,972)</u>	
Less amount paid by the State		<u>(52,861)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,079,653</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries and benefits

The district claimed \$1,442,809 in salaries and benefits for the audit period. We found that \$994,663 is allowable and \$448,146 is unallowable. The costs are unallowable because the district claimed ineligible costs and double-claimed costs.

The following table summarizes the unallowable salaries and benefits by reimbursable component for the audit period:

Reimbursable Component	Fiscal Year						Total
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	
G3 - Cost of negotiations:							
Ineligible costs:							
Individual negotiation preparation	\$ (54,482)	\$ (73,692)	\$ (76,297)	\$ (69,129)	\$ (80,758)	\$ (89,721)	\$ (444,079)
Substitute costs	(808)	-	(318)	(185)	(129)	(125)	(1,565)
More than 5 representatives per negotiation	-	(57)	(153)	-	(154)	(419)	(783)
Unrepresented employees	(641)	-	-	-	-	-	(641)
Total ineligible costs	(55,931)	(73,749)	(76,768)	(69,314)	(81,041)	(90,265)	(447,068)
Double-claimed costs	(189)	(271)	-	(431)	-	(187)	(1,078)
Audit adjustment	<u>\$ (56,120)</u>	<u>\$ (74,020)</u>	<u>\$ (76,768)</u>	<u>\$ (69,745)</u>	<u>\$ (81,041)</u>	<u>\$ (90,452)</u>	<u>\$ (448,146)</u>

Component G3 – Cost of Negotiations

The district claimed \$1,096,720 for the audit period. We found that \$648,574 is allowable and \$448,146 is unallowable. The costs are unallowable because the district claimed ineligible costs totaling \$447,068 and double-claimed costs totaling \$1,078.

The district claimed ineligible costs of \$444,079 for time spent on individual negotiation preparation, \$1,565 for substitute costs claimed on a day when negotiations did not occur, \$783 in reimbursement for more than five representatives per negotiation session, and \$641 for time spent on issues related to unrepresented employees.

Individual negotiation preparation

The district overstated costs by \$444,079 because it claimed reimbursement for district staff to individually prepare for negotiations. The parameters and guidelines do not identify negotiation preparation as an allowable cost. However, the parameters and guidelines do allow reimbursement for negotiation planning sessions. The use of the term “sessions” is indicative of a meeting or gathering of more than one person. An example of a negotiation planning session is when district employees meet to strategize for an upcoming negotiation. A negotiation planning session is distinct from an individual employee’s use of time to review files or otherwise prepare for negotiations.

The parameters and guidelines (section G, subsection (3)(b)) state:

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

Substitute costs

The district overstated substitute costs by \$1,565 because it claimed reimbursement for substitute costs on a day when table negotiations did not occur. Reimbursement is limited to days when a unit representative is unable to teach because of their involvement in table negotiations.

The parameters and guidelines (section G, subsection (3)(b)) state:

Indicated the cost of substitutes for the release time of exclusive bargaining unit representatives during negotiations. Give the job classification of the bargaining representative that required a substitute and dates the substitute worked. Substitute costs for a maximum of five representatives per unit, per negotiation session will be reimbursed...

More than five representatives claimed per negotiation

The district overstated costs by \$783 because it claimed reimbursement for more than five representatives per negotiation session. Reimbursement is limited to five public school employer unit representatives per negotiation session.

The parameters and guidelines (section G, subsection (3)(a)) state:

...Costs for maximum of five public school employer representatives per unit, per negotiation session will be reimbursed...

Unrepresented employees

For FY 2005-06, the district overstated costs by \$641 because it claimed reimbursement for time spent on issues related to unrepresented employees. The parameters and guidelines allow reimbursement for district staff to participate in negotiations, develop the initial contract proposal; and reproduce and distribute the final contract agreement. None of the time claimed by the district was spent on these activities.

Double-claimed costs

The district overstated costs by \$1,078 because of mathematical errors resulting in costs claimed twice.

First, the district double-claimed costs by \$889 for time spent at table negotiations. For example, if a negotiation lasted from 11:00 am to 12:30 pm, the district mistakenly claimed 3.0 hours instead of 1.5 hours.

Secondly, the district double-claimed costs of \$189 for substitutes to backfill for unit representatives. The district claimed reimbursement twice for a substitute to work on the same day at the same time.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that all costs claimed are reimbursable according to the parameters and guidelines and are mathematically accurate.

**FINDING 2—
Unallowable contract
services**

The district claimed \$677,805 in contract services for the audit period. We found that \$652,743 is allowable and \$25,062 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs.

The following table summarizes the unallowable contract services by reimbursable component for the audit period:

Reimbursable Component	Fiscal Year						Total
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	
G3 - Cost of negotiations:							
Unsupported costs	\$ -	\$ (8,707)	\$ -	\$ -	\$ -	\$ -	\$ (8,707)
Total cost of negotiations	-	(8,707)	-	-	-	-	(8,707)
G6 - Contract administration:							
Ineligible grievances	(648)	(675)	(5,670)	(1,944)	(3,753)	(1,471)	(14,161)
Unsupported grievances	-	(601)	(1,593)	-	-	-	(2,194)
Total contract administration	(648)	(1,276)	(7,263)	(1,944)	(3,753)	(1,471)	(16,355)
Audit adjustment	\$ (648)	\$ (9,983)	\$ (7,263)	\$ (1,944)	\$ (3,753)	\$ (1,471)	\$ (25,062)

Component G3 – Cost of Negotiations

The district claimed \$488,557 for the audit period. We found that \$479,850 is allowable and \$8,707 is unallowable. The costs are unallowable because the district claimed unsupported costs.

For FY 2006-07, the district claimed reimbursement of \$104,025 for its attorneys to participate in negotiations. However, the district provided attorney logs supporting only \$95,318 in costs, resulting in an overstatement of \$8,707. The overstatement occurred primarily because the district mistakenly typed 80 hours into its database instead of 0.80 hours when recording an attorney's time.

The parameters and guidelines (section G) state:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and support by source documentation that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

Component G6 – Contract Administration

The district claimed \$188,789 for the audit period. We found that \$172,434 is allowable and \$16,355 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs.

Ineligible Activities

The district claimed \$14,161 for time spent by its attorneys on grievances that are not related to collective bargaining. A grievance is a dispute involving the interpretation, application, or a violation of a collective bargaining agreement. A disciplinary action against an employee is a voluntary action on the part of the district, and therefore, not related to collective bargaining.

During audit fieldwork, we selected a sample of 34 grievance files to test. Of that sample, we found that six grievances claimed were related to personnel actions and not to collective bargaining. We found that none of the case files documented that an employee filed a grievance against the district stating that his or her collective bargaining rights had been violated. In addition, one of the case files showed that the district pursued adverse action against an employee, which is not a mandated cost because it was the district's decision to initiate such action.

The parameters and guidelines (section G, subsection (6)(a)) state:

Salaries and benefits of employer personnel involved in adjudication of contract disputes. Contract services will be reimbursed...

Unsupported Costs

The district did not provide documentation supporting one grievance file, totaling \$2,194. As a result, the district did not support that the costs claimed are the result of a collective bargaining violation.

The parameters and guidelines (section G) state:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and support by source documentation that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that all costs claimed are reimbursable according to the parameters and guidelines and are properly supported.

**FINDING 3—
Misstated indirect
cost rates**

The district claimed \$193,492 in indirect costs for the audit period. We found that \$306,728 is allowable. The district understated indirect costs by \$113,236 because it applied the indirect cost rate to unallowable direct costs (see Findings 1 and 2), incorrectly calculated the FAM-29C indirect cost rates, and did not apply the FAM-29C indirect cost rates to the proper direct cost base.

For FY 2005-06 through FY 2010-11, 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 in 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 for the following reasons:

- For FY 2005-06 and FY 2006-07, the district double-claimed the expenditures reported on the CCFS-311, misclassified direct and indirect costs, did not exclude "other outgo" for Other Student Services (Account 6400), incorrectly included Physical Property Acquisitions (Account 7100) as an indirect cost, and did not include the depreciation expense identified in the notes to the basic financial statements.
- For FY 2007-08 through FY 2010-11, the district used the wrong FAM-29C formula. In FY 2007-08, the FAM-29C formula changed from a direct cost base of total direct costs to a direct cost base of only salaries and benefits. The district did not calculate the FAM-29C using the new formula. Instead, it continued to calculate the indirect cost rate using the FAM-29C formula used for FY 2005-06 and FY 2006-07.

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

	Fiscal Year					
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Claimed indirect cost rate	26.42%	30.61%	33.83%	32.26%	32.55%	31.38%
Allowable indirect cost rate	40.33%	45.82%	51.01%	50.38%	54.19%	55.79%
Difference	13.91%	15.21%	17.18%	18.12%	21.64%	24.41%

In addition, for FY 2005-06 and FY 2006-07, the district applied the FAM-29C to only salaries and benefits. 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.

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

	Fiscal Year						Total
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	
Allowable increased direct costs ¹	\$ 158,720	\$ 157,348					
Allowable indirect salaries and benefits ²			\$ 96,471	\$ 84,102	\$ 82,286	\$ 61,749	
Allowable indirect cost rate	40.33%	45.82%	51.01%	50.38%	54.19%	55.79%	
Allowable indirect costs	64,012	72,097	49,209	42,370	44,590	34,450	\$ 306,728
Less indirect costs claimed	(28,549)	(36,255)	(38,780)	(30,225)	(33,366)	(26,317)	(193,492)
Audit adjustment	\$ 35,463	\$ 35,842	\$ 10,429	\$ 12,145	\$ 11,224	\$ 8,133	\$ 113,236

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

² The FY 2007-08 through FY 2010-11 FAM-29C rates are applied to increased salaries and benefits.

The parameters and guidelines (section H(6)) state:

Community College Districts must use one of the following three alternatives:

- A federally-approved rate based on OMB Circular A-21;
- The State Controller's FMA-29C which uses the CCFS-311; or
- Seven percent (7%).

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district calculate indirect costs in the manner prescribed in the claiming instructions and apply the indirect cost rates to allowable direct costs.

**State Controller's Office
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