



JOHN CHIANG
California State Controller

January 27, 2010

Vinod K. Sharma
Controller-Treasurer
County Government Center, East Wing
Santa Clara County
70 West Hedding Street, 2nd Floor
San Jose, CA 95110

Dear Mr. Sharma:

The State Controller's Office reviewed the costs claimed by Santa Clara County for the legislatively mandated Mandate Reimbursement Process Program (Chapter 486, Statutes of 1975; Chapter 1459, Statutes of 1984; Chapter 1577, Statutes of 2003, and Chapter 208, Statutes of 2004) for the period of July 1, 2003, through June 30, 2005. Our review was limited to validating employees' productive hourly rates.

The county claimed \$715,868 (\$716,868 less a \$1,000 penalty for filing a late claim) for the mandated program. Our review disclosed that \$672,285 is allowable and \$43,583 is unallowable. The costs are unallowable because the county overstated employees' productive hourly rates, as described in the attached Summary of Program Costs, and Finding and Recommendation.

For the fiscal year (FY) 2003-04 claim, the State made no payment to the county. Our review disclosed that \$359,004 is allowable. The State should pay that amount, contingent upon available appropriations.

For the FY 2004-05 claim, the State made no payment to the county. Our review disclosed that \$313,281 is allowable. The State should pay that amount, contingent upon available appropriations.

If you disagree with the review finding, 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 link at <http://www.csm.ca.gov/docs/IRCForm.pdf>.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB:sk

Attachments

Re: S10-MCC-900

cc: Ginny Brummels, Manager
SCO-Division of Accounting and Reporting
Jeff Carosone, Principal Program Analyst
Department of Finance, Administration
Ram Venkatesan, SB-90 Coordinator
Controller-Treasurer Department
Santa Clara County

**Attachment 1—
Summary of Program Costs
July 1, 2003, through June 30, 2005**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Review</u>	<u>Review Adjustment ¹</u>
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries	\$ 116,524	\$ 107,205	\$ (9,319)
Benefits	38,824	35,718	(3,106)
Services and supplies	86,940	86,940	—
Total direct costs	242,288	229,863	(12,425)
Indirect costs	141,454	130,141	(11,313)
Total direct and indirect costs	383,742	360,004	(23,738)
Less late filing penalty	(1,000)	(1,000)	—
Total program costs	<u>\$ 382,742</u>	359,004	<u>\$ (23,738)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 359,004</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries	\$ 106,229	\$ 97,572	\$ (8,657)
Benefits	32,326	29,691	(2,635)
Services and supplies	89,623	89,623	—
Total direct costs	228,178	216,886	(11,292)
Indirect costs	104,948	96,395	(8,553)
Total program costs	<u>\$ 333,126</u>	313,281	<u>\$ (19,845)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 313,281</u>	
<u>Summary: July 1, 2003, through June 30, 2005</u>			
Direct costs:			
Salaries	\$ 222,753	\$ 204,777	\$ (17,976)
Benefits	71,150	65,409	(5,741)
Services and supplies	176,563	176,563	—
Total direct costs	470,466	446,749	(23,717)
Indirect costs	246,402	226,536	(19,866)
Total direct and indirect costs	716,868	673,285	(43,583)
Less late filing penalty	(1,000)	(1,000)	—
Total program costs	<u>\$ 715,868</u>	672,285	<u>\$ (43,583)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 672,285</u>	

¹ See Attachment 2, Finding and Recommendation.

Attachment 2— Finding and Recommendation July 1, 2003, through June 30, 2005

**FINDING—
Overstated productive
hourly rates**

The county claimed unallowable salaries totaling \$17,976. The related benefits and indirect costs total \$5,741 and \$19,866, respectively. The costs are unallowable because the county overstated employees' productive hourly rates. The county included unallowable deductions for training time and break time in its calculation of countywide average annual productive hours. We identified this issue in various audits of the county's mandated cost programs.

Unallowable Training Hour Deduction

The county deducted training hours from regular hours worked to calculate countywide average annual productive hours. The deduction is unallowable because the county did not provide documentation substantiating the training hours that it deducted. In addition, the deducted training hours include training that benefits specific programs or employee classifications.

The county's payroll system includes a training code to track employees' training hours. The county stated that employees charged time to the training code when they attended non-program-related training. It stated that employees charge time to this code for the following training:

1. Training required by employees' bargaining unit agreements, training for licensure/certification requirements, and continuing education for specific job classifications such as attorneys, probation officers, real estate property appraisers, physicians, and nurses
2. California Commission on Peace Officer Standards and Training (POST) training for law enforcement personnel
3. County-required training such as new employee orientation, supervisory training, safety seminars, and software classes

The county did not provide documentation substantiating the training hours that it deducted. Items 1 and 2 above identify training hours that pertain to specific programs or employee classifications. As such, it is inappropriate to deduct these hours when calculating countywide average annual productive hours.

While it might be appropriate to deduct some training hours identified in item 3 above, the county did not:

- Separately identify and provide supporting documentation for these training hours;
- Provide documentation showing that it required the training for all county employees; or
- Provide documentation showing that employees did not otherwise charge the training time to specific programs.

Unallowable Break Time Deduction

The county also deducted employee break time from regular hours worked to calculate countywide average annual productive hours. The deduction is unallowable because the county deducted authorized break time rather than actual break time taken. In addition, the county did not adjust for break time charged directly to program activities.

The following table summarizes claimed and allowable productive hours for each fiscal year:

	Fiscal Year	
	2003-04	2004-05
Claimed productive hours (A)	1,560.65	1,545.00
Break time	111.35	110.45
Training time	24.35	26.60
Allowable productive hours (B)	<u>1,696.35</u>	<u>1,682.05</u>
Review adjustment to productive hours $[(A) - (B)] \div (B)$	<u>(8.00)%</u>	<u>(8.15)%</u>

Attachments 3 and 4 provide detailed calculations of the review adjustment, which the table below summarizes:

	Fiscal Year		Total
	2003-04	2004-05	
Salaries	\$ (9,319)	\$ (8,657)	\$ (17,976)
Benefits	<u>(3,106)</u>	<u>(2,635)</u>	<u>(5,741)</u>
Total salaries and benefits	(12,425)	(11,292)	(23,717)
Indirect costs	<u>(11,313)</u>	<u>(8,553)</u>	<u>(19,866)</u>
Review adjustment	<u>\$ (23,738)</u>	<u>\$ (19,845)</u>	<u>\$ (43,583)</u>

The program’s parameters and guidelines state, “All costs claimed must be traceable to source documents and/or worksheets that show evidence of and the validity of such costs.”

Recommendation

We recommend that the county:

- Modify its payroll system to accumulate only those training hours applicable to county-required training attended by all county employees;
- Deduct only actual break time taken by all county employees. If the county does not wish to track actual break time taken, it may absorb break time into the activity that the employee performs immediately before or after the break; and
- Maintain documentation that supports both training time and break time that it deducts from regular hours worked to calculate countywide average annual productive hours.

**Attachment 3—
Calculation of Review Adjustment
Fiscal Year 2003-04**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Claimed Salaries	Claimed Benefits	Unallowable Salaries [Col. (1) × (8.00)%]	Unallowable Benefits [Col. (2) × (8.00)%]	Subtotal, Unallowable Salaries and Benefits	Claimed Indirect Cost Rate	Indirect Cost Rate Applied To Unallowable	Unallowable Indirect Costs	Total Review Adjustment
Probation Department	\$ 6,737	\$ 1,987	\$ (539)	\$ (159)	\$ (698)	80.70%	Salaries	\$ (434)	\$ (1,132)
Registrar of Voters Department	16,095	5,268	(1,287)	(421)	(1,708)	91.06%	Salaries and benefits	(1,555)	(3,263)
Controller-Treasurer Department	80,916	28,310	(6,473)	(2,265)	(8,738)	102.00%	Salaries and benefits	(8,913)	(17,651)
Department of Agriculture, Weights and Measurements	731	219	(58)	(18)	(76)	10.00%	Salaries	(6)	(82)
District Attorney Department	11,187	2,677	(894)	(214)	(1,108)	24.50%	Salaries and benefits	(271)	(1,379)
Corrections Department	858	363	(68)	(29)	(97)	138.00%	Salaries and benefits	(134)	(231)
Total, fiscal year 2003-04 ¹	<u>\$ 116,524</u>	<u>\$ 38,824</u>	<u>\$ (9,319)</u>	<u>\$ (3,106)</u>	<u>\$ (12,425)</u>			<u>\$ (11,313)</u>	<u>\$ (23,738)</u>

¹ Calculation differences due to rounding.

**Attachment 4—
Calculation of Review Adjustment
Fiscal Year 2004-05**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Claimed Salaries	Claimed Benefits	Unallowable Salaries [Col. (1) × (8.15%)]	Unallowable Benefits [Col. (2) × (8.15%)]	Subtotal, Unallowable Salaries and Benefits	Claimed Indirect Cost Rate	Indirect Cost Rate Applied To Unallowable	Unallowable Indirect Costs	Total Review Adjustment
Probation Department	\$ 9,061	\$ 2,557	\$ (738)	\$ (208)	\$ (946)	10.00%	Salaries	\$ (74)	\$ (1,020)
Controller-Treasurer Department	66,829	19,424	(5,447)	(1,584)	(7,031)	92.49%	Salaries and benefits	(6,503)	(13,534)
District Attorney Department	3,470	838	(282)	(68)	(350)	24.56%	Salaries and benefits	(86)	(436)
Registrar of Voters Department	16,118	5,871	(1,314)	(478)	(1,792)	96.93%	Salaries and benefits	(1,737)	(3,529)
Corrections Department	2,203	762	(179)	(62)	(241)	32.22%	Salaries and benefits	(77)	(318)
Sheriff Department	205	57	(17)	(5)	(22)	40.05%	Salaries and benefits	(9)	(31)
Mental Health Department	8,343	2,817	(680)	(230)	(910)	10.00%	Salaries	(67)	(977)
Total, fiscal year 2004-05 ¹	<u>\$ 106,229</u>	<u>\$ 32,326</u>	<u>\$ (8,657)</u>	<u>\$ (2,635)</u>	<u>\$ (11,292)</u>			<u>\$ (8,553)</u>	<u>\$ (19,845)</u>

¹ Calculation differences due to rounding.