

SAN JOAQUIN DELTA COMMUNITY COLLEGE DISTRICT

Audit Report

COLLECTIVE BARGAINING AND COLLECTIVE BARGAINING AGREEMENT DISCLOSURE PROGRAM

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

*July 1, 2006, through June 30, 2008;
and July 1, 2009, through June 30, 2010*



BETTY T. YEE
California State Controller

November 2015



BETTY T. YEE
California State Controller

November 30, 2015

Steve Castellanos, President
Board of Trustees
San Joaquin Delta Community College District
5151 Pacific Avenue
Stockton, CA 95207

Dear Mr. Castellanos:

The State Controller's Office audited the costs claimed by the San Joaquin Delta Community College District for the legislatively mandated Collective Bargaining and Collective Bargaining Agreement Disclosure Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2006, through June 30, 2008; and July 1, 2009, through June 30, 2010. The district did not claim any costs for the period of July 1, 2008, through June 30, 2009.

The district claimed \$361,395 for the mandated program. Our audit found that \$163,019 is allowable and \$198,376 is unallowable. The costs are unallowable because the district claimed ineligible and inadequately supported costs, did not report the Winton Act base-year direct costs, and misstated the indirect cost rates. The State paid the district \$317,114. The amount paid exceeds allowable costs claimed by \$154,095.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Kathy Hart, Ph.D., Superintendent/President
San Joaquin Delta Community College District
Raquel Puentes-Griffith, Controller
San Joaquin Delta Community College District
Dianna R. Gonzales, Director of Human Resources
San Joaquin Delta Community College District
Christina Rivera, Human Resources Administrative Analyst
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the San Joaquin Delta Community College District for the legislatively mandated Collective Bargaining and Collective Bargaining Agreement Disclosure Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2006, through June 30, 2008; and July 1, 2009, through June 30, 2010. The district did not claim any costs for the period of July 1, 2008, through June 30, 2009.

The district claimed \$361,395 for the mandated program. Our audit found that \$163,019 is allowable and \$198,376 is unallowable. The costs are unallowable because the district claimed ineligible and inadequately supported costs, did not report the Winton Act base-year direct costs, and misstated the indirect cost rates. The State paid the district \$317,114. The amount paid exceeds allowable costs claimed by \$154,095.

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 Rodda Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives related to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [Commission]) 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. This section requires school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding.

On August 20, 1998, the Commission determined that this legislation also imposed a state mandate upon school districts, reimbursable under Government Code section 17561.

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 [FY] 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 – Cost of negotiations
- G4 – Impasse proceedings
- G5 – Collective bargaining agreement disclosure
- G6 – Contract administration
- G7 – Unfair labor practice charges

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The Commission 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 school districts in claiming mandated program reimbursable costs.

Objectives, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Collective Bargaining and Collective Bargaining Agreement Disclosure Program for the period of July 1, 2006, through June 30, 2008; and July 1, 2009, through June 30, 2010.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted this performance 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. Our audit scope did not assess the efficiency or effectiveness of program operations.

To achieve our audit objectives, we performed the following audit procedures:

- Interviewed employees, completed the internal control questionnaire, and performed a walk-through of the cost components of each claim.
- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities.
- Tested transactions selected through auditor professional judgement for the relevant cost elements.

Conclusion

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

For the audit period, the San Joaquin Delta Community College District claimed \$361,395 for costs of the Collective Bargaining and Collective Bargaining Agreement Disclosure Program. Our audit found that \$163,019 is allowable and \$198,376 is unallowable.

For the fiscal year (FY) 2006-07 and FY 2007-08 claims, the State paid the district \$312,512 from funds appropriated under Chapter 32, Statutes of 2014 (Senate Bill No. 858). Our audit found that \$163,019 is allowable. The State will apply \$149,493 against any balances of unpaid mandated program claims due the district as of June 20, 2014.

For the FY 2009-10 claim, the State paid the district \$4,602. Our audit found that none of the costs claimed are allowable. The State will offset \$4,602 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

Views of Responsible Officials

We issued a draft audit report on November 6, 2015. Raquel Puentes-Griffith, Controller, responded, via email, on November 16, 2015, that “The District understands the findings for the disallowed claims from the prior mandated program under which it previously participated.”

Restricted Use

This report is solely for the information and use of the San Joaquin Delta 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

November 30, 2015

Schedule—
Summary of Program Costs
July 1, 2006, through June 30, 2008;
and July 1, 2009, through June 30, 2010

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 48,949	\$ 26,420	\$ (22,529)	Finding 1
Materials and supplies	149	149	-	
Subtotal	49,098	26,569	(22,529)	
Less base-year direct costs adjusted by the Implicit Price Deflator	-	(13,423)	(13,423)	Finding 3
Increased direct costs, G1 through G3	49,098	13,146	(35,952)	
Component activities G4 through G7:				
Salaries and benefits	3,251	1,596	(1,655)	Finding 1
Contract services	59,046	58,061	(985)	Finding 2
Increased direct costs, G4 through G7	62,297	59,657	(2,640)	
Total increased direct costs, G1 through G7	111,395	72,803	(38,592)	
Indirect costs	19,243	30,548	11,305	
Total program costs	\$ 130,638	103,351	\$ (27,287)	
Less amount paid by the State ²			(130,638)	
Allowable costs claimed in excess of (less than) amount paid			\$ (27,287)	
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 44,317	\$ 21,972	\$ (22,345)	Finding 1
Contract services	98	98	-	
Subtotal	44,415	22,070	(22,345)	
Less base-year direct costs adjusted by the Implicit Price Deflator	-	(14,369)	(14,369)	Finding 3
Increased direct costs, G1 through G3	44,415	7,701	(36,714)	
Component activities G4 through G7:				
Salaries and benefits	3,002	1,458	(1,544)	Finding 1
Contract services	91,080	46,749	(44,331)	Finding 2
Increased direct costs, G4 through G7	94,082	48,207	(45,875)	
Total increased direct costs, G1 through G7	138,497	55,908	(82,589)	
Indirect costs	43,377	3,760	(39,617)	
Total program costs	\$ 181,874	59,668	\$ (122,206)	
Less amount paid by the State ²			(181,874)	
Allowable costs claimed in excess of (less than) amount paid			\$ (122,206)	

Schedule (continued)

Cost Elements	Actual Costs	Allowable	Audit	
	Claimed	per Audit	Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 10,205	\$ 1,798	\$ (8,407)	Finding 1
Subtotal	10,205	1,798	(8,407)	
Less base-year direct costs adjusted by the Implicit Price Deflator	-	(14,912)	(14,912)	Finding 3
Subtotal	10,205	(13,114)	(23,319)	
Adjustment to eliminate negative balance	-	13,114	13,114	
Increased direct costs, G1 through G3	10,205	-	(10,205)	
Component activities G4 through G7:				
Salaries and benefits	23,947	-	(23,947)	Finding 1
Increased direct costs, G4 through G7	23,947	-	(23,947)	
Total increased direct costs, G1 through G7	34,152	-	(34,152)	
Indirect costs	14,731	-	(14,731)	Finding 4
Total program costs	\$ 48,883	-	\$ (48,883)	
Less amount paid by the State		(4,602)		
Allowable costs claimed in excess of (less than) amount paid		\$ (4,602)		
<u>Summary: July 1, 2006, through June 30, 2008;</u>				
<u>and July 1, 2009, through June 30, 2010</u>				
Total increased direct costs, G1 through G7	\$ 284,044	\$ 128,711	\$ (155,333)	
Indirect costs	77,351	34,308	(43,043)	
Total program costs	\$ 361,395	163,019	\$ (198,376)	
Less amount paid by the State		(317,114)		
Allowable costs claimed in excess of (less than) amount paid		\$ (154,095)		

¹ See the Findings and Recommendations section.

² Payment from funds appropriated under Chapter 32, Statutes of 2014 (Senate Bill No. 858).

Findings and Recommendations

FINDING 1— Unallowable salaries and benefits

The district claimed \$133,671 in salaries and benefits during the audit period. We found that \$53,244 is allowable and \$80,427 is unallowable. The costs are unallowable because the district claimed ineligible and inadequately supported costs.

The following table summarizes the claimed, allowable, and unallowable salaries and benefits by reimbursable component for each fiscal year in the audit period:

Reimbursable Components	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
G3 - Cost of Negotiations	\$ 48,949	\$ 26,420	\$ (22,529)
G6 - Contract Administration	1,655	-	(1,655)
G7 - Unfair Labor Practice Charges	1,596	1,596	-
Total, FY 2006-07	<u>52,200</u>	<u>28,016</u>	<u>(24,184)</u>
<u>FY 2007-08</u>			
G3 - Cost of Negotiations	44,317	21,972	(22,345)
G4 - Impasse Proceedings	1,259	1,259	-
G6 - Contract Administration	1,544		(1,544)
G7 - Unfair Labor Practice Charges	199	199	-
Total, FY 2007-08	<u>47,319</u>	<u>23,430</u>	<u>(23,889)</u>
<u>FY 2009-10</u>			
G3 - Cost of Negotiations	10,205	1,798	(8,407)
G6 - Contract Administration	23,947	-	(23,947)
Total, FY 2009-10	<u>34,152</u>	<u>1,798</u>	<u>(32,354)</u>
<u>Recap: by Reimbursable Component</u>			
G3 - Cost of Negotiations	103,471	50,190	(53,281)
G4 - Impasse Proceedings	1,259	1,259	-
G6 - Contract Administration	27,146	-	(27,146)
G7 - Unfair Labor Practice Charges	1,795	1,795	-
Total, Salaries and Benefits	<u>\$ 133,671</u>	<u>\$ 53,244</u>	<u>\$ (80,427)</u>

Component G3 – Cost of Negotiations

The district claimed \$103,471 in salaries and benefits for the Cost of Negotiations cost component during the audit period. We found that \$50,190 is allowable and \$53,281 is unallowable. The costs are unallowable because the district claimed reimbursement for inadequately supported costs.

To support the hours claimed, the district provided negotiation sign-in sheets and individual employee log sheets. The negotiation sign-in sheets are sufficient to support the hours claimed because they are prepared contemporaneously and identify the dates and times of all negotiations, and provide a signed list of the participants. In addition, when any pre-negotiation strategizing occurred, the negotiation sign-in sheets identified the district representatives involved and the length of time spent. However,

the individual employee log sheets are not sufficient to support the hours claimed, as they are not prepared contemporaneously, report only a “good faith estimate” of the hours claimed, and do not include the required certification. As such, the individual employee log sheets are corroborating documentation that cannot be substituted for source documentation.

We tallied all of the at-table negotiation and negotiation planning hours reported on the negotiation sign-in sheets and found that \$50,190 is allowable. The remaining costs claimed, totaling \$53,281, which are supported by the individual employee log sheets, are not allowable.

The program’s parameters and guidelines (section G. – Claim Components (Reimbursable Costs)) 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 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.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations. Declarations must include a certification or declaration stating, “I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct based upon personal knowledge.” Evidence corroboration the source documents may include date relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

Component G6 – Contract Administration

The district claimed \$27,146 in salaries and benefits for the Contract Administration cost component during the audit period. We found that none of the costs claimed are allowable. The costs are unallowable because the district claimed reimbursement for costs that are both inadequately supported and ineligible.

To support the hours claimed, the district provided individual employee log sheets to support the time spent investigating and resolving grievances. As previously noted, all hours supported by the individual employee log sheets are unallowable, as the log sheets are not prepared contemporaneously, report only a “good faith estimate” of the hours claimed, and do not include the required certification. Further, review of the individual employee log sheets show that most of the activities claimed are for layoff activities. Layoff activities are not eligible for reimbursement because the district has already negotiated the terms and conditions for handling layoffs. Implementing the terms and conditions of an already negotiated Collective Bargaining contract is not a reimbursable activity.

The parameters and guidelines (section G.6. – Claim Components (Reimbursable Costs)) state:

Contract administration and adjudication of contract disputes either by arbitration or litigation. Reimbursable functions include grievances and administration and enforcement of the contract.

- a. Salaries and benefits of employer personnel involved in adjudication of contract disputes. Contracted services will be reimbursed. Salaries and benefits must be shown as described in Item H3.

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 costs claimed are reimbursable per the parameters and guidelines and are adequately supported by sufficient source documentation.

FINDING 2— Unallowable contract services

The district claimed \$150,224 in contract services during the audit period. We found that \$104,908 is allowable and \$45,316 is unallowable. The costs are unallowable because the district claimed ineligible costs.

The following table summarizes the claimed, allowable, and unallowable contract services by reimbursable component for each fiscal year in the audit period:

Reimbursable Components	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2006-07</u>			
G6 - Contract Administration	\$ 985	\$ -	\$ (985)
G7 - Unfair Labor Practice Charges	<u>58,061</u>	<u>58,061</u>	<u>-</u>
Total, FY 2006-07	<u>59,046</u>	<u>58,061</u>	<u>(985)</u>
<u>FY 2007-08</u>			
G3 - Cost of Negotiations	98	98	-
G4 - Impasse Proceedings	14,253	14,253	-
G6 - Contract Administration	67,410	23,079	(44,331)
G7 - Unfair Labor Practice Charges	<u>9,417</u>	<u>9,417</u>	<u>-</u>
Total, FY 2007-08	<u>91,178</u>	<u>46,847</u>	<u>(44,331)</u>
<u>Recap: by Reimbursable Component</u>			
G3 - Cost of Negotiations	98	98	-
G4 - Impasse Proceedings	14,253	14,253	-
G6 - Contract Administration	68,395	23,079	(45,316)
G7 - Unfair Labor Practice Charges	<u>67,478</u>	<u>67,478</u>	<u>-</u>
Total, Contract Services	<u>\$ 150,224</u>	<u>\$ 104,908</u>	<u>\$ (45,316)</u>

Component G6 – Contract Administration

The district claimed \$68,395 in contract services for the Contract Administration cost component during the audit period. We found that \$23,079 is allowable and \$45,316 is unallowable. The costs are unallowable because the district claimed time spent by its attorneys on grievances that are not collective bargaining-related and outside the audit period. A collective bargaining grievance is a dispute involving the interpretation, application, or violation of a collective bargaining agreement.

During audit fieldwork, we selected a sample of 11 grievance cases to test for compliance with the collective bargaining criteria. The district did not have any grievance files for us to review, but was able to provide us with a letter from its attorney that specified the subject matter of all 11 sampled cases and identified whether the cases were related to collective bargaining contract violations. In the letter, the attorney acknowledged that the following four cases were not collective bargaining-related:

- Case 1 – General file regarding labor relations
- Case 2 – Faculty grievance predating the audit period
- Case 3 – Administrative issues resulting in general legal advice
- Case 4 – Faculty disciplinary matter

We traced the costs claimed for the four ineligible grievances to the attorney invoices and found that \$45,316 is unallowable.

The parameters and guidelines (section G.6. – Claim Components (Reimbursable Costs)) state:

Contract administration and adjudication of contract disputes either by arbitration or litigation. Reimbursable functions include grievances and administration and enforcement of the contract.

- a. Salaries and benefits of employer personnel involved in adjudication of contract disputes. Contracted services will be reimbursed. Salaries and benefits must be shown as described in Item H3.

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 per the parameters and guidelines.

FINDING 3— Unreported Winton Act base-year direct costs

The district did not report the Winton Act base-year direct costs in its mandated cost claims for any fiscal year in the audit period. Specifically, the district did not offset the Winton Act base-year costs against the current-year Rodda Act costs for components G1 through G3, thus understating the Winton Act base-year costs by \$42,704 for the audit period.

The following table summarizes the unreported Winton Act base-year cost adjustment for each fiscal year in the audit period:

	Fiscal Year			Total
	2006-07	2007-08	2009-10	
Winton Act base year-costs, FY 2000-01	\$ (3,330)	\$ (3,330)	\$ (3,330)	
Implicit Price Deflator (IPD)	× 4.031	× 4.315	× 4.478	
Winton Act base-year costs adjusted by the IPD	(13,423)	(14,369)	(14,912)	\$ (42,704)
Less reported Winton Act base-year costs	-	-	-	-
Audit adjustment	\$ (13,423)	\$ (14,369)	\$ (14,912)	\$ (42,704)

The Winton Act base-year costs were obtained from the FY 2000-01 claim the district submitted to the SCO's Division of Accounting and Reporting. The Implicit Price Deflator is reported in the SCO's annual claiming instructions.

The parameters and guidelines (section H., Supporting Data for Claims -- Report Format for Submission of Claims) 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

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 Winton Act base-year costs are adjusted by the Implicit Price Deflator, 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 \$77,351 in indirect costs during the audit period. We found that \$34,308 is allowable and \$43,043 is unallowable. The costs are unallowable because the district applied its indirect cost rates to unallowable direct costs (see Findings 1 through 3), applied its indirect cost rates to the wrong direct cost base for FY 2006-07 and FY 2007-08, and incorrectly calculated the FAM-29C indirect cost rates for all fiscal years in the audit period.

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

- FY 2006-07 – The district incorrectly reported Physical Property and Related Acquisitions (#7100) as a direct cost instead of reporting the depreciation expense identified in Note 5 of the district's audited financial statements as an indirect cost.
- FY 2007-08 – For FY 2007-08, the FAM-29C formula changed to a direct-cost base consisting of only salaries and benefits. When calculating the FAM-29C rate, the district incorrectly used the FY 2006-07 FAM-29C formula, which uses a direct-cost base of total direct costs. In addition, the district did not include depreciation as an indirect cost in its FAM-29C rate calculation.
- FY 2009-10 – The district incorrectly classified Community Relations (#6710) as an indirect cost instead of a direct cost. In addition, the district did not include depreciation as an indirect cost in its FAM-29C rate calculation.

The following table summarizes the understated indirect cost rates for each fiscal year in the audit period:

Fiscal Year	Claimed Indirect Cost Rate	Allowable Indirect Cost Rate	Difference
2006-07	36.76%	41.96%	5.20%
2007-08	31.32%	41.50%	10.18%
2009-10	43.13%	50.68%	7.55%

In addition to the rate adjustments, the FY 2006-07 FAM-29C rate should be applied to total direct costs; however, the district incorrectly excluded contract services from the indirect cost calculation. Also, for FY 2007-08, the FAM-29C rate is applied only to salaries and benefits; however, the district incorrectly applied the FAM-29C rate to total direct costs claimed.

The following summarizes the claimed, allowable, and unallowable indirect costs for each fiscal year in the audit period:

Fiscal Year	Allowable Salaries and Benefits ¹	Allowable Direct Costs ²	Allowable Indirect Cost Rate	Allowable Indirect Costs	Claimed Indirect Costs	Audit Adjustment
2006-07	\$ -	\$ 72,803	41.96%	\$ 30,548	\$ 19,243	\$ 11,305
2007-08	9,061	-	41.50%	3,760	43,377	(39,617)
2009-10	-	-	50.68%	-	14,731	(14,731)
Total				\$ 34,308	\$ 77,351	\$ (43,043)

¹ The FAM-29C rate for FY 2007-08 and FY 2009-10 is applied to allowable salaries and benefits.

² The FAM-29C rate for FY 2006-07 is applied to allowable total direct costs.

The parameters and guidelines (section H.(6.), Supporting Data for Claims – Report Format for Submission of Claim) 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 SCO claiming instructions and apply the indirect cost rates to allowable direct costs.

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