



**JOHN CHIANG**  
California State Controller

December 5, 2013

Michael C. Watkins, County Superintendent of Schools  
Santa Cruz County Office of Education  
400 Encinal Street  
Santa Cruz, CA 95060

Dear Mr. Watkins:

The State Controller's Office reviewed the costs claimed by the Santa Cruz County Office of Education (SCCOE) for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2008, through June 30, 2012. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to ensuring that direct and indirect costs were properly reported in accordance with program requirements.

The SCCOE claimed \$56,194 for the mandated program. Our review found that \$2,002 is allowable (\$2,010 less a \$8 penalty for filing a late claim) and \$54,192 is unallowable. The costs are unallowable because the SCCOE did not report any Winton Act base-year costs, as described in the attached Summary of Program Costs and the Finding and Recommendation.

We informed Mary Hart, Associate Superintendent of Business, of the review finding via email on November 8, 2013. We did not receive a response from the SCCOE.

For the fiscal year (FY) 2008-09 claim, the State paid the SCCOE \$2,403. Our review found that \$1,934 is allowable. The State will offset \$469 from other mandated program payments due the SCCOE. Alternatively, the SCCOE may remit this amount to the State.

For the FY 2009-10 claim, the State paid the SCCOE \$263. Our review found that the claimed costs are unallowable. The State will offset \$263 from other mandated program payments due the SCCOE. Alternatively, the SCCOE may remit this amount to the State.

For the FY 2010-11 claim, the State made no payment to the SCCOE. Our review found that the entire amount is unallowable.

For the FY 2011-12 claim, the State made no payment to the SCCOE. Our review found that \$68 is allowable. The State will 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 the CSM's website at [www.csm.ca.gov/docs/IRCForm.pdf](http://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/nh

Attachments

RE: S14-MCC-919

cc: Mary Hart, Associate Superintendent of Business  
Santa Cruz County Office of Education  
Jean Gardner, Director of Fiscal Services  
Santa Cruz County Office Education  
Scott Hannan, Director, School Fiscal Services Division  
California Department of Education  
Carol Bingham, Director, Fiscal Policy Division  
California Department of Education  
Thomas Todd, Assistant Program Budget Manager  
Education Systems Unit, California Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

## Attachment 1— Summary of Program Costs July 1, 2008, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment <sup>1</sup>
<u>July 1, 2008, through June 30, 2009</u>			
Direct costs:			
Component activities G1 through G3:			
Salaries and benefits	\$ 16,161	\$ 16,161	\$ —
Materials and supplies	42	42	—
Subtotal	16,203	16,203	—
Less base-year direct costs adjusted by the implicit price deflator	—	(16,963)	(16,963)
Subtotal	16,203	(760)	(16,963)
Adjustment to eliminate negative balance	—	760	760
Increased direct costs, G1 through G3	16,203	—	(16,203)
Component activities G4 through G7:			
Salaries and benefits	1,794	1,794	—
Increased direct costs, G4 through G7	1,794	1,794	—
Total increased direct costs, G1 through G7	17,997	1,794	(16,203)
Indirect costs	1,406	140	(1,266)
Total program costs	<u>\$ 19,403</u>	1,934	<u>\$ (17,469)</u>
Less amount paid by the State		(2,403)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (469)</u>	
<u>July 1, 2009, through June 30, 2010</u>			
Direct costs:			
Component activities G1 through G3:			
Salaries and benefits	\$ 3,150	\$ 3,150	\$ —
Subtotal	3,150	3,150	—
Less base-year direct costs adjusted by the implicit price deflator	—	(17,151)	(17,151)
Subtotal	3,150	(14,001)	(17,151)
Adjustment to eliminate negative balance	—	14,001	14,001
Increased direct costs, G1 through G3	3,150	—	(3,150)
Total increased direct costs, G1 through G7	3,150	—	(3,150)
Indirect costs	216	—	(216)
Total program costs	<u>\$ 3,366</u>	—	<u>\$ (3,366)</u>
Less amount paid by the State		(263)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (263)</u>	

**Attachment 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment <sup>1</sup>
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Component activities G1 through G3:			
Salaries and benefits	\$ 13,969	\$ 13,969	\$ —
Subtotal	13,969	13,969	—
Less base-year direct costs adjusted by the implicit price deflator	—	(17,553)	(17,553)
Subtotal	13,969	(3,584)	(17,553)
Adjustment to eliminate negative balance	—	3,584	3,584
Increased direct costs, G1 through G3	13,969	—	(13,969)
Total increased direct costs, G1 through G7	13,969	—	(13,969)
Indirect costs	1,041	—	(1,041)
Total program costs	<u>\$ 15,010</u>	—	<u>\$ (15,010)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>	
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Component activities G1 through G3:			
Salaries and benefits	\$ 17,263	\$ 17,263	\$ —
Subtotal	17,263	17,263	—
Less base-year direct costs adjusted by the implicit price deflator	—	(18,147)	(18,147)
Subtotal	17,263	(884)	(18,147)
Adjustment to eliminate negative balance	—	884	884
Increased direct costs, G1 through G3	17,263	—	(17,263)
Component activities G4 through G7:			
Salaries and benefits	72	72	—
Increased direct costs, G4 through G7	72	72	—
Total increased direct costs, G1 through G7	17,335	72	(17,263)
Indirect costs	1,080	4	(1,076)
Subtotal	18,415	76	(18,339)
Less late filing penalty <sup>2</sup>	—	(8)	(8)
Total program costs	<u>\$ 18,415</u>	68	<u>\$ (18,347)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 68</u>	

## Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment <sup>1</sup>
<u>Summary: July 1, 2008, through June 30, 2012</u>			
Total increased direct costs, G1 through G7	\$ 52,451	\$ 1,866	\$ (50,585)
Indirect costs	3,743	144	(3,599)
Subtotal	56,194	2,010	(54,184)
Less late filing penalty	—	(8)	(8)
Total program costs	<u>\$ 56,194</u>	2,002	<u>\$ (54,192)</u>
Less amount paid by the State		<u>(2,666)</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (664)</u>	

<sup>1</sup> See Attachment 2, Finding and Recommendation.

<sup>2</sup> The SCCOE filed its fiscal year 2011-12 annual reimbursement claim after the due date specified in Government Code section 17560. Pursuant to Government Code section 17568, the State assessed a late filing penalty equal to 10% of allowable costs, not to exceed \$10,000.

## Attachment 2— Finding and Recommendation July 1, 2008, through June 30, 2012

**FINDING—  
Unreported Winton Act  
base-year direct costs,  
and related indirect  
costs**

The Santa Cruz County Office of Education (SCCOE) did not report any Winton Act direct costs on its mandated cost claims for fiscal year (FY) 2008-09 through FY 2011-12. Specifically, the SCCOE 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 \$69,814 for the review period. Unallowable related indirect costs total \$3,599.

The following table summarizes the unreported Winton Act base-year cost adjustment by fiscal year:

	Fiscal Year				Total
	2008-09	2009-10	2010-11	2011-12	
Winton Act base year costs, FY 1995-96	\$ (3,830)	\$ (3,830)	\$ (3,830)	\$ (3,830)	
Implicit price deflator (IPD)	× 4.429	× 4.478	× 4.583	× 4.738	
Winton Act base-year costs adjusted by the IPD	(16,963)	(17,151)	(17,553)	(18,147)	\$ (69,814)
Less reported Winton Act base-year costs	-	-	-	-	-
Unreported Winton Act base-year costs adjusted by the IPD	(16,963)	(17,151)	(17,553)	(18,147)	(69,814)
Related indirect cost adjustment	(1,266)	(216)	(1,041)	(1,076)	(3,599)
Review adjustment	<u>\$ (18,229)</u>	<u>\$ (17,367)</u>	<u>\$ (18,594)</u>	<u>\$ (19,223)</u>	<u>\$ (73,413)</u>

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 [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; 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 CSM 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, FY 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

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 State Controller's Office (SCO) issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

The parameters and guidelines (Section H – Supporting Data 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.

The Winton Act base-year costs were obtained from the FY 1995-96 claim the SCCOE submitted to the SCO's Division of Accounting and Reporting. The implicit price deflator (IPD) is reported in the SCO's annual claiming instructions.

### Recommendation

We recommend that the SCCOE 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 SCCOE's current-year Rodda Act direct costs claimed.