

PERALTA COMMUNITY COLLEGE DISTRICT

Audit Report

COLLECTIVE BARGAINING PROGRAM

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

July 1, 2001, through June 30, 2004



JOHN CHIANG
California State Controller

August 2007



JOHN CHIANG
California State Controller

August 10, 2007

Elihu Harris, Chancellor
Peralta Community College District
333 East 8th Street
Oakland, CA 94606

Dear Mr. Harris:

The State Controller's Office audited the costs claimed by the Peralta 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, 2001, through June 30, 2004.

The district claimed \$594,608 for the mandated program. Our audit disclosed that \$538,442 is allowable and \$56,166 is unallowable. The unallowable costs occurred primarily because the district claimed ineligible and unsupported costs. The State paid the district \$412,231. Allowable costs claimed exceed the amount paid by \$126,211.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/jj

cc: Thuy Nguyen, General Counsel
Peralta Community College District
Thomas L. Smith, Esq.
Vice Chancellor for Finance and Administration
Peralta Community College District
Marty Rubio, Specialist
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Peralta 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, 2001, through June 30, 2004. The last day of fieldwork was June 20, 2007.

The district claimed \$594,608 for the mandated program. Our audit disclosed that \$538,442 is allowable and \$56,166 is unallowable. The unallowable costs occurred primarily because the district claimed ineligible and unsupported costs. The State paid the district \$412,231. Allowable costs claimed exceed the amount paid by \$126,211.

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 reimbursable state mandate upon school districts reimbursable under Government Code section 17561.

Chapter 1213, Statutes of 1991, added Government Code section 3547.5, requiring school district 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 district reimbursable under Government Code section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that district incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For claim 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

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. The CSM adopted the *Parameters and Guidelines* on October 22, 1980, and last amended it on January 27, 2000. In compliance with Government Code section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school district in claiming 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, 2001, through June 30, 2004.

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 the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

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.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures, as recommended by *Government Auditing Standards*. However, the district did not submit a representation letter.

Conclusion

Our audit disclosed 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 Peralta Community College District claimed \$594,608 for costs of the Collective Bargaining Program. Our audit disclosed that \$538,442 is allowable and \$56,166 is unallowable.

For the fiscal year (FY) 2001-02 claim, the State paid the district \$126,599. Our audit disclosed that \$102,013 is allowable. The State will offset \$24,586 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2002-03 claim, the State paid the district \$285,632. Our audit disclosed that \$254,052 is allowable. The State will offset \$31,580 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2003-04 claim, the State made no payment to the district. Our audit disclosed that \$182,377 is allowable. The State will pay that amount, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on June 29, 2007. Thomas L. Smith, Esq., Vice Chancellor for Finance and Administration, responded by telephone on August 6, 2007, agreeing with the audit results.

Restricted Use

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

**Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2004**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Component Activities G1 through G3:				
Salaries and benefits	\$ 21,756	\$ 20,432	\$ (1,324)	Finding 1
Materials and supplies	131	—	(131)	Finding 2
Contracted services	38,047	30,888	(7,159)	Finding 3
Subtotals	59,934	51,320	(8,614)	
Less adjusted base year direct costs	(4,986)	(4,986)	—	
Increased direct costs, G1 through G3	54,948	46,334	(8,614)	
Component Activities G4 through G7:				
Salaries and benefits	19,572	11,698	(7,874)	Finding 1
Materials and supplies	294	—	(294)	Finding 2
Contracted services	34,137	33,688	(449)	Finding 3
Increased direct costs, G4 through G7	54,003	45,386	(8,617)	
Total increased direct costs, G1 through G7	108,951	91,720	(17,231)	
Indirect costs	17,648	10,293	(7,355)	Finding 4
Total program costs	\$ 126,599	102,013	\$ (24,586)	
Less amount paid by the State		(126,599)		
Allowable costs claimed in excess of (less than) amount paid		\$ (24,586)		
<u>July 1, 2002, through June 30, 2003</u>				
Component Activities G1 through G3:				
Salaries and benefits	\$ 96,385	\$ 81,334	\$ (15,051)	Finding 1
Contracted services	124,685	97,166	(27,519)	Finding 3
Subtotals	221,070	178,500	(42,570)	
Less adjusted base year direct costs	(5,098)	(5,098)	—	
Increased direct costs, G1 through G3	215,972	173,402	(42,570)	
Component Activities G4 through G7:				
Salaries and benefits	26,297	18,500	(7,797)	Finding 1
Contracted services	43,363	26,226	(17,137)	Finding 3
Increased direct costs, G4 through G7	69,660	44,726	(24,934)	
Total increased direct costs, G1 through G7	285,632	218,128	(67,504)	
Indirect costs	—	35,924	35,924	Finding 4
Total program costs	\$ 285,632	254,052	\$ (31,580)	
Less amount paid by the State		(285,632)		
Allowable costs claimed in excess of (less than) amount paid		\$ (31,580)		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Component Activities G1 through G3:				
Salaries and benefits	\$ 73,830	\$ 67,689	\$ (6,141)	Finding 1
Materials and supplies	2,109	2,109	—	
Contracted services	73,662	73,662	—	
Subtotals	149,601	143,460	(6,141)	
Less adjusted base year direct costs	(5,284)	(5,284)	—	
Increased direct costs, G1 through G3	144,317	138,176	(6,141)	
Component Activities G4 through G7:				
Salaries and benefits	33,037	23,379	(9,658)	Finding 1
Contracted services	5,023	5,023	—	
Increased direct costs, G4 through G7	38,060	28,402	(9,658)	
Total increased direct costs, G1 through G7	182,377	166,578	(15,799)	
Indirect costs	—	32,529	32,529	Finding 4
Subtotal	182,377	199,107	16,730	
Less allowable costs that exceed amount claimed ²	—	(16,730)	(16,730)	
Total program costs	<u>\$ 182,377</u>	182,377	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 182,377</u>		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Total reimbursable costs	<u>\$ 594,608</u>	\$ 538,442	<u>\$ (56,166)</u>	
Less amount paid by the State		(412,231)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 126,211</u>		

¹ See the Findings and Recommendations section.

² Government Code section 17561 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2003-04 claims.

Findings and Recommendations

**FINDING 1—
Unallowable salary
and benefit costs**

The district claimed unallowable salary and benefit costs totaling \$47,845 for the audit period. The audit adjustment resulted from the following issues.

Inaccurate Productive Hourly Rates

The district reported inaccurate productive hourly rates, which resulted in net understated salary and benefit costs totaling \$6,284 for the audit period. The district calculated incorrect productive hourly rates because the district did not use timely/current employee salary payroll information to calculate productive hourly rates. We calculated audited productive hourly rates based on salary rates documented in the district’s payroll records.

The following table summarizes the audit adjustment that resulted from the district’s use of inaccurate productive hourly rates.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Salary and benefit costs:				
Components G1-G3	\$ (1,324)	\$ 9,645	\$ (5,040)	\$ 3,281
Components G4-G7	(305)	4,669	(1,361)	3,003
Audit adjustment	\$ (1,629)	\$ 14,314	\$ (6,401)	\$ 6,284

Ineligible Costs

The district claimed unallowable salary and benefit costs totaling \$20,133. The claimed costs are unallowable due to the following reasons.

- The district claimed costs that are not reimbursable by *Parameters and Guidelines*. Non-reimbursable costs claimed include costs for regular meetings and costs incurred by the district Chancellor.
- The district claimed unallowable training costs for costs of employees to attend workshops and monthly meetings, which are not reimbursable under the mandated program.

The following table summarizes the audit adjustment that resulted from unallowable costs.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Salary and benefit costs:				
Components G1-G3	\$ —	\$ (1,511)	\$ —	\$ (1,511)
Components G4-G7	(5,974)	(4,351)	(8,297)	(18,622)
Audit adjustment	\$ (5,974)	\$ (5,862)	\$ (8,297)	\$ (20,133)

Unsupported Hours Claimed

The district claimed overstated salary and benefit costs totaling \$33,996 for the audit period. The district claimed inaccurate mandate-related hours primarily for the following reasons.

- The district made mathematical errors in preparing the mandated cost claims. The errors are mainly attributed to claiming duplicated hours.
- The district claimed employee hours that were either not adequately supported or not supported.
- The district claimed overtime costs for salaried employees who did not earn overtime pay.

The following table summarizes the audit adjustment that resulted from unsupported hours claimed.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Salary and benefit costs:				
Components G1-G3	\$ —	\$ (23,185)	\$ (1,101)	\$ (24,286)
Components G4-G7	(1,595)	(8,115)	—	(9,710)
Audit adjustment	<u>\$ (1,595)</u>	<u>\$ (31,300)</u>	<u>\$ (1,101)</u>	<u>\$ (33,996)</u>

The following table summarizes all of the audit adjustments for salaries and benefits.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Salary and benefit costs:				
Components G1-G3:				
Productive hourly rate	\$ (1,324)	\$ 9,645	\$ (5,040)	\$ 3,281
Ineligible costs	—	(1,511)	—	(1,511)
Unsupported costs	—	(23,185)	(1,101)	(24,286)
Total, components G1-G3:	<u>(1,324)</u>	<u>(15,051)</u>	<u>(6,141)</u>	<u>(22,516)</u>
Components G4-G7:				
Productive hourly rate	(305)	4,669	(1,361)	3,003
Ineligible costs	(5,974)	(4,351)	(8,297)	(18,622)
Unsupported costs	(1,595)	(8,115)	—	(9,710)
Total, components G4-G7:	<u>(7,874)</u>	<u>(7,797)</u>	<u>(9,658)</u>	<u>(25,329)</u>
Audit adjustment	<u>\$ (9,198)</u>	<u>\$ (22,848)</u>	<u>\$ (15,799)</u>	<u>\$ (47,845)</u>

Government Code section 17560 requires school districts to file an annual reimbursement claim that details the costs actually incurred for the fiscal year.

Parameters and Guidelines states, “Public school employers will be reimbursed for the ‘increased costs’ incurred as a result of compliance with the mandate.” Government Code section 17514 states that “costs mandated by the State” means any increased costs, which a school district is required to incur.

Parameters and Guidelines states, “Personal development and informational programs, i.e., classes, conferences, seminars, workshops, and time spent by employees attending such meetings are not reimbursable.”

Parameters and Guidelines also states, “. . . the costs for salaries and expenses of the governing authority, for example the School Superintendent and Governing Board, are not reimbursable.”

Recommendation

We recommend that the district develop and implement an adequate recording and reporting system to ensure all costs claimed are allowable and properly supported.

District’s Response

The district agrees with the audit finding.

**FINDING 2—
Misclassified material
and supply costs**

The district overstated material and supply costs by \$425 during audit period. The overstated costs occurred because the district incorrectly reported contracted services costs as material and supply costs. Finding 3 identifies the understated contracted services costs.

The following table summarizes the audit adjustment.

	<u>FY 2001-02</u>
Components G1-G3:	
Materials and supplies	\$ (131)
Components G4-G7:	
Materials and supplies	<u>(294)</u>
Audit adjustment	<u>\$ (425)</u>

Government Code section 17560 requires school districts to file an annual reimbursement claim that details the costs actually incurred for the fiscal year.

Recommendation

We recommend that the district develop and implement procedures to ensure that all costs claimed are properly classified on the mandated cost claims.

District’s Response

The district agrees with the audit finding.

**FINDING 3—
Unallowable contracted
service costs**

The district claimed unallowable contracted services costs totaling \$52,264 for the audit period. The audit adjustment resulted from the following issues.

Mathematical Errors

The district claimed overstated costs totaling \$48,906 for the audit period due to mathematical errors, including claiming duplicate costs and typographical errors.

Non-reimbursable Training Costs

The district claimed unallowable training costs totaling \$3,783 during the audit period. The unallowable training costs consist of employee seminars and retreats and employee conflict-resolution training sessions. Per the *Parameters and Guidelines*, reimbursable training costs are limited to training held for supervisory and management personnel for contract administration and interpretation of the *negotiated* contract.

Misclassified Costs

The district understated contract services costs by \$425 during the audit period, as previously identified in Finding 2—Misclassified material costs. The understated costs occurred because the district incorrectly reported contracted services costs as materials and supplies.

The following table summarizes all of the audit adjustments for contracted services.

	Fiscal Year		Total
	2001-02	2002-03	
Contracted services:			
Components G1-G3:			
Mathematical errors	\$ (6,750)	\$ (25,019)	\$ (31,769)
Non-reimbursable training costs	(540)	(2,500)	(3,040)
Misclassified costs	131	—	131
Total, components G1-G3:	<u>(7,159)</u>	<u>(27,519)</u>	<u>(34,678)</u>
Components G4-G7:			
Mathematical errors	—	(17,137)	(17,137)
Non-reimbursable training costs	(743)	—	(743)
Misclassified costs	294	—	294
Total, components G4-G7:	<u>(449)</u>	<u>(17,137)</u>	<u>(17,586)</u>
Audit adjustment	<u>\$ (7,608)</u>	<u>\$ (44,656)</u>	<u>\$ (52,264)</u>

Parameters and Guidelines states, “Public school employers will be reimbursed for the ‘increased costs’ incurred as a result of compliance with the mandate.” Government Code section 17514 states that “costs mandated by the State” means any increased costs, which a school district is required to incur.

Government Code section 17560 requires school districts to file an annual reimbursement claim that details the costs actually incurred for the fiscal year.

Parameters and Guidelines states, “Reasonable costs incurred for a reasonable number of training sessions held for supervisory and management personnel on contract administration/interpretation of the negotiated contract are reimbursable. Contract interpretations at staff meetings are not reimbursable. Personal development and informational programs, i.e., classes, conferences, seminars, workshops, and time spent by employees attending such meetings are not reimbursable.”

Recommendation

We recommend that the district develop and implement an effective control and reporting system to ensure that all claimed costs are eligible and adequately supported.

District’s Response

The district agrees with the audit finding.

FINDING 4— Understated indirect costs

The district claimed inaccurate indirect costs, which resulted in net understated indirect costs totaling \$61,098 for the audit period. This audit finding resulted from the following.

- The district did not claim indirect costs for FY 2002-03 and FY 2003-04. However, the district has a federally approved indirect cost rate of 48%, which is effective for all three fiscal years under audit.
- The district incorrectly calculated indirect costs for FY 2001-02 using salaries and benefits instead of excluding the benefits. The district also incorrectly calculated indirect costs against materials and supplies. The federally approved rate that the district has, notes that the rate is derived from direct salary and wages but excluding fringe benefits. Therefore, the federally approved rate is applicable only to salaries.
- Audit adjustments made to the related salary costs identified in Finding 1.

The following table summarizes the unallowable indirect costs.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Total indirect costs claimed (<i>item (a)</i>)	\$ 17,648	\$ —	\$ —	\$ 17,648
Total salaries and benefits allowed	\$ 32,130	\$ 99,834	\$ 91,068	
Less base year costs adjusted by IPD	(4,986)	(5,098)	(5,284)	
Subtotal	27,144	94,736	85,784	
Less benefits @ 21%	(5,700)	(19,895)	(18,015)	
Total salaries allowed	21,444	74,841	67,769	
Indirect cost rate allowed	× 48%	× 48%	× 48%	
Total indirect costs allowed (<i>item (b)</i>)	\$ 10,293	\$ 35,924	\$ 32,529	\$ 78,746
Indirect costs (over)/underclaimed (<i>item (b) – item (a)</i>)	\$ (7,355)	\$ 35,924	\$ 32,529	\$ 61,098

Parameters and Guidelines states that claimants will only be reimbursed for the increased costs incurred as a result of compliance with the mandate.

Recommendation

We recommend that the district develop and implement an adequate recording and reporting system to ensure all costs claimed are allowable and properly supported.

District's Response

The district agrees with the audit finding.

**State Controller's Office
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