

# **CITY OF STOCKTON**

Audit Report

## **OPEN MEETINGS ACT/ BROWN ACT REFORM PROGRAM**

Chapter 641, Statutes of 1986, and  
Chapters 1136, 1137, and 1138, Statutes of 1993

*July 1, 2000, through June 30, 2004*



**JOHN CHIANG**  
California State Controller

February 2008



**JOHN CHIANG**  
California State Controller

February 22, 2008

Mark Moses  
Director of Administrative Services/CFO  
City of Stockton  
425 North El Dorado Street  
Stockton, CA 95202

Dear Mr. Moses:

The State Controller's Office audited the costs claimed by the City of Stockton for the legislatively mandated Open Meetings Act/Brown Act Reform Program (Chapter 641, Statutes of 1986, and Chapters 1136, 1137, and 1138, Statutes of 1993) for the period of July 1, 2000, through June 30, 2004.

The city claimed \$271,126 for the mandated program. Our audit disclosed that \$193,104 is allowable and \$78,022 is unallowable. The unallowable costs resulted primarily because the city misstated salaries and benefits and indirect costs used to calculate blended productive hourly rates for the standard-rate method. The State paid the city \$66,555. Allowable costs claimed exceed the amount paid by \$126,549.

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 CSM's Web site, at [www.csm.ca.gov](http://www.csm.ca.gov) (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at [csminfo@csm.ca.gov](mailto:csminfo@csm.ca.gov).

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

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/sk:vb

cc: Cathy Lucas, Accounting Manager  
City of Stockton  
Todd Jerue, Program Budget Manager  
Corrections and General Government  
Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the City of Stockton for the legislatively mandated Open Meetings Act/Brown Act Reform Program (Chapter 641, Statutes of 1986, and Chapters 1136, 1137, and 1138, Statutes of 1993) for the period of July 1, 2000, through June 30, 2004.

The city claimed \$271,126 for the mandated program. Our audit disclosed that \$193,104 is allowable and \$78,022 is unallowable. The unallowable costs resulted primarily because the city misstated salaries and benefits and indirect costs used to calculate blended productive hourly rates for the standard-rate method. The State paid the city \$66,555. The State will pay allowable costs claimed that exceed the amount paid, totaling \$126,549, contingent upon available appropriations.

## Background

### Open Meetings Act Program

Chapter 641, Statutes of 1986, added Government Code sections 54954.2 and 54954.3. Section 54954.2 requires the legislative body of a local agency, or its designee, to post an agenda containing a brief general description of each item or business to be transacted or discussed at the regular meeting, subject to exceptions stated therein, specifying the time and location of the regular meeting. It also requires that the agenda be posted at least 72 hours before the meeting, in a location freely accessible to the public. Section 54954.3 requires members of the public to be provided an opportunity to address the legislative body on specific agenda items or an item of interest that is within the subject matter jurisdiction of the legislative body. The legislation requires that this opportunity be stated on the posted agenda.

### Open Meetings Act/Brown Act Reform Program

Chapters 1136 through 1138, Statutes of 1993, amended Government Code sections 54952, 54954.2, 54957.1, and 54957.7, expanding the types of legislative bodies that are required to comply with the notice and agenda requirements of sections 54954.2 and 54954.3. These sections also require all legislative bodies to perform additional activities related to the closed sessions requirements of the Brown Act.

The Commission on State Mandates (CSM) determined that the Open Meetings Act Program (October 22, 1987) and the Open Meetings Act/Brown Act Reform Program (June 28, 2001) resulted in state-mandated costs that are reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted parameters and guidelines on September 22, 1988 (last amended on November 30, 2000) for the Open Meetings Act Program, and on April 25, 2002, for the Open Meetings Act/Brown Act Reform Program. 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.

The Open Meetings Act Program was effective August 29, 1986. Commencing in fiscal year (FY) 1997-98, a local agency may claim costs using the actual time reimbursement option, the standard-time reimbursement option, or the flat rate reimbursement option as specified in the parameters and guidelines. The Open Meetings Act/Brown Act Reform Program was effective for FY 2001-02.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Open Meetings Act/Brown Act Reform Program for the period of July 1, 2000, 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 city'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 city'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 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 City of Stockton claimed and was paid \$271,126 for costs of the Open Meetings Act/Brown Act Reform Program. Our audit disclosed that \$193,104 is allowable and \$78,022 is unallowable.

For the FY 2000-01 claim, the State paid the city \$50,624. Our audit disclosed that \$45,980 is allowable. The State will offset \$4,644 from other mandated program payments due the city. Alternatively, the city may remit this amount to the State.

For the FY 2001-02 claim, the State paid the city \$15,931. Our audit disclosed that \$46,705 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$30,774, contingent upon available appropriations.

For the FY 2002-03 claim, the State made no payments to the city. Our audit disclosed that \$55,170 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$55,170, contingent upon available appropriations.

For the FY 2003-04 claim, the State made no payments to the city. Our audit disclosed that \$45,249 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$45,249, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft audit report on November 21, 2007. We contacted Cathy Lucas, Accounting Manager, by telephone on January 7, 2008. Ms. Lucas declined to respond to the draft report.

**Restricted Use**

This report is solely for the information and use of the City of Stockton, 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

February 22, 2008

**Schedule 1—  
Summary of Program Costs  
July 1, 2000, through June 30, 2004**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2000, through June 30, 2001</u>				
Standard rate	\$ 64,029	\$ 29,495	\$ (34,534)	Findings 1, 2, 3
Flat rate	16,595	16,485	(110)	Finding 4
Total program costs	<u>\$ 80,624</u>	45,980	<u>\$ (34,644)</u>	
Less amount paid by the State		(50,624)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (4,644)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Standard rate	\$ 71,964	\$ 29,291	\$ (42,673)	Findings 1, 2, 3
Flat rate	14,830	17,414	2,584	Finding 4
Total program costs	<u>\$ 86,794</u>	46,705	<u>\$ (40,089)</u>	
Less amount paid by the State		(15,931)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 30,774</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Standard rate	\$ 54,242	\$ 47,192	\$ (7,050)	Findings 1, 2, 3
Flat rate	4,217	7,978	3,761	Finding 4
Total program costs	<u>\$ 58,459</u>	55,170	<u>\$ (3,289)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 55,170</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Standard rate	\$ 31,412	\$ 41,502	\$ 10,090	Findings 1, 2, 3
Flat rate	13,837	13,837	—	Finding 4
Subtotals	45,249	55,339	10,090	
Less allowable costs that exceed costs claimed <sup>2</sup>	—	(10,090)	(10,090)	
Total program costs	<u>\$ 45,249</u>	45,249	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 45,249</u>		
<u>Summary: July 1, 2000, through June 30, 2004</u>				
Standard rate	\$ 221,647	\$ 147,480	\$ (74,167)	
Flat rate	49,479	55,714	6,235	
Subtotals	271,126	203,194	(67,932)	
Less allowable costs that exceed costs claimed <sup>2</sup>	—	(10,090)	(10,090)	
Total program costs	<u>\$ 271,126</u>	193,104	<u>\$ (78,022)</u>	
Less amount paid by the State		(66,555)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 126,549</u>		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> 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. The deadline has expired for FY 2003-04.



# Findings and Recommendations

**FINDING 1—  
Misstated agenda  
items**

For fiscal year (FY) 2000-01 and FY 2001-02, the city overstated the number of agenda items relating to Parks and Recreation Department by 26. The adjustments are included in the calculation of allowable costs under the flat-rate reimbursement option in Finding 2.

The following table shows the adjustments to the number of agenda items:

	Fiscal Year		
	2000-01	2001-02	Total
Parks and Recreation Department	8	(34)	(26)

The program’s parameters and guidelines, Section VI, state that reimbursement under the standard-time reimbursement option will be calculated based on the number of allowable meeting agenda items. Section VII states that the number of meeting agenda items will be supported by copies of agendas.

Recommendation

We recommend that the city ensure costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

City’s Response

The city did not respond to the audit finding.

**FINDING 2—  
Errors made in  
computing standard  
time costs**

The city claimed \$74,167 in unallowable costs. The city claimed a portion of its costs under the standard-time reimbursement option. Under this method, reimbursable costs are based on the number of meeting agenda items, a blended productive hourly labor rate for employees involved in the mandated activities, and a standard number of minutes for each meeting agenda item prepared. We noted the following errors in the claims:

- For FY 2000-01 through FY 2002-03, the city claimed reimbursement for the Youth Advisory Commission in the amount of \$8,661 (\$1,527, \$4,360, and \$2,774 for FY 2000-01 through FY 2002-03, respectively). The city also claimed reimbursement for the Cultural Heritage Board in the amount of \$9,354 (\$4,951 for FY 2001-02 and \$4,403 for FY 2002-03), and \$2,755 for FY 2002-03 for the Public Arts Advisory Committee. We determined that the city had no corroborating evidence to support the allocable time spent per the mandate for these entities. In lieu of the unsupported costs claimed under the standard-time method option, we have allowed costs of \$6,235 computed under the flat-rate reimbursement option (refer to Finding 4).

- For FY 2000-01 through FY 2003-04, the city misstated individuals' hourly rates (a component of the blended productive hourly rate) for employees who performed mandated activities. The misstatement resulted from the city using budgeted amounts for salaries rather than actual salaries to calculate the productive hourly rates.
- For FY 2000-01 through FY 2003-04, the city overstated salaries and related benefits (components of the blended productive hourly rate) for preparing and posting meeting agendas. The city used budgeted figures that did not represent each employee's actual hourly rate.
- For FY 2000-01 through FY 2003-04, the city understated benefit costs claimed in each fiscal year. The city calculated benefit percentages based on the total number of benefits divided by total salaries for each given department. For the City Manager's Office, Community Development Department, and Parks and Recreation Department, the city incorrectly reported separation pay, vacation sell back, and additional pay within the category of "part-time wages and overtime." These costs should have been reported within the employee benefits category. This error resulted in an overall understatement of the benefit rates.
- For FY 2000-01 through FY 2003-04, the city overstated the allocable percentages allotted to certain individuals spent working on mandated activities, which also affected the blended productive hourly rate calculation. For some departments, the city was unable to provide supporting time records for claimed individuals' allotted time spent performing mandated activities. As a result, the allocable percentages allocated to these individuals changed.
- The indirect cost rate used to calculate blended productive hourly rates for the City Manager's Office Council, City Manager's Office Administration, City Clerk's Office, Community Development Department, Parks and Recreation Department, and Personnel Department was overstated.

The parameters and guidelines, Section VI, state that reimbursement under the standard time reimbursement option will be calculated based on the number of allowable meeting agenda items. Section VII states that the number of meeting agenda items will be supported by copies of agendas.

The parameters and guidelines, Section VI, Supporting Data, also state that, for blended productive hourly rate calculations, ". . . claimants may determine a percentage allocation for the person or classification of persons in a base fiscal year and use that percentage allocation for subsequent future years by multiplying the base year percentages times the productive hourly rate for that person or classification of persons for the fiscal year of the reimbursement claim."

In addition, the parameters and guidelines, Section VI, Supporting Data, state that ". . . for auditing purposes, all incurred costs claimed must be traceable to source documents that show evidence of their validity and relationship to the reimbursable activities." Documents may include, but

are not limited to, worksheets, employee time records or time logs, cost allocation reports (system generated), invoices, receipts, purchase orders, contracts, agendas, training packets with signatures and logs of attendees, calendars, declarations, and data relevant to the reimbursable activities otherwise reported in compliance with local, state, and federal law.

The following table summarizes adjustments to the standard-time method:

	Fiscal Year				Total
	2000-01	2001-02	2002-03	2003-04	
City Council	\$(31,111)	\$(30,119)	\$ 3,074	\$ 8,958	\$ (49,198)
Public Arts Advisory Committee	—	—	(2,755)	—	(2,755)
Community Development	(1,865)	(1,367)	413	725	(2,094)
Parks and Recreation Department	(31)	(1,029)	1,103	407	450
Youth Advisory Commission	(1,527)	(4,360)	(2,774)	—	(8,661)
Redevelopment Commission	—	(847)	—	—	(847)
Cultural Heritage Board	—	(4,951)	(4,403)	—	(9,354)
Public Works	—	—	(246)	—	(246)
Personnel Department	—	—	(1,462)	—	(1,462)
Audit adjustment	<u>\$(34,534)</u>	<u>\$(42,673)</u>	<u>\$ (7,050)</u>	<u>\$ 10,090</u>	<u>\$ (74,167)</u>

Recommendation

We recommend that the city ensure that costs claimed are eligible increased costs incurred as a result of the mandate and are supported by appropriate documentation.

City’s Response

The city did not respond to the audit finding.

**FINDING 3—  
Overstated indirect  
cost rates**

For FY 2000-01 through FY 2003-04, the city overstated its indirect cost rates for the City Manager’s Office Council, City Manager’s Office Administration, Community Development Department, Parks and Recreation, and Personnel Department. The adjustment is included in Finding 2.

The city overstated its indirect cost rates for the following reasons:

- For FY 2000-01 and FY 2001-02, the indirect cost pool included salaries and benefits for certain employees based on an allocable percentage. However, the city had no corroborating evidence to support the allocated percentages, which were later determined to be estimates. This was noted for the City Manager’s Office Council, City Manager’s Office Administration, Community Development Department, and Parks and Recreation Department.

However, we noted that the Executive Assistant’s indirect salary for FY 2002-03 and FY 2003-04 was claimed as 100% indirect for the Parks and Recreation Department. We allowed this cost. To be consistent, we also allowed 100% of the Executive Assistant’s salary as indirect for FY 2000-01 and FY 2001-02.

- For FY 2000-01 through FY 2003-04, the city incorrectly claimed professional services, other services, contract employees, and travel/board commission costs as indirect rather than as direct costs.

- For FY 2000-01 and FY 2001-02, the city included professional services and board travel costs as indirect for the Community Development Department. For FY 2002-03 and FY 2003-04, these costs were properly classified as direct costs.
- For FY 2001-02, the city included other services and professional services as indirect for the City Manager’s Office. For FY 2002-03 and FY 2003-04, these costs were properly classified as direct costs.
- For FY 2000-01 and FY 2001-02, the city included other services and contract employees (FY 2001-02 only) as indirect for the Parks and Recreation Department. For FY 2002-03 and FY 2003-04, these costs were properly classified as direct costs.

The following summarizes the audit adjustment to claimed indirect costs is as follows:

	Fiscal Year			
	2000-01	2001-02	2002-03	2003-04
<b>City Manager’s Office Council:</b>				
Claimed indirect cost rate	50.19%	53.52%	36.91%	—
Allowable indirect cost rate	29.60%	28.96%	36.05%	—
Variance	<u>(20.59)%</u>	<u>(24.56)%</u>	<u>(0.86)%</u>	<u>—</u>
<b>City Manager’s Office Administration:</b>				
Claimed indirect cost rate	52.46%	52.75%	57.07%	51.49%
Allowable indirect cost rate	34.00%	30.71%	51.91%	48.82%
Variance	<u>(18.46)%</u>	<u>(22.04)%</u>	<u>(5.16)%</u>	<u>(2.67)%</u>
<b>City Clerk’s Office:</b>				
Claimed indirect cost rate	—	—	36.91%	—
Allowable indirect cost rate	—	—	36.05%	—
Variance	<u>—</u>	<u>—</u>	<u>(0.86)%</u>	<u>—</u>
<b>Community Development Department:</b>				
Claimed indirect cost rate	52.88%	51.87%	45.62%	35.09%
Allowable indirect cost rate	47.04%	43.10%	43.81%	33.71%
Variance	<u>(5.84)%</u>	<u>(8.77)%</u>	<u>-1.81%</u>	<u>(1.38)%</u>
<b>Parks and Recreation Department:</b>				
Claimed indirect cost rate	49.95%	54.69%	56.90%	53.04%
Allowable indirect cost rate	45.88%	54.89%	54.30%	51.51%
Variance	<u>(4.07)%</u>	<u>0.20%</u>	<u>(2.60)%</u>	<u>(1.53)%</u>
<b>Personnel Department:</b>				
Claimed indirect cost rate	—	—	47.99%	—
Allowable indirect cost rate	—	—	47.78%	—
Variance	<u>—</u>	<u>—</u>	<u>(0.21)%</u>	<u>—</u>

Office of Management and Budget (OMB) Circular A-87 states that costs must be adequately documented. In addition, it defines direct costs as those costs that can be identified specifically with a particular final cost objective. It defines indirect costs as costs “. . . (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.”

Recommendation

We recommend that the city prepare its indirect cost rate proposals in accordance with OMB Circular A-87 and ensure that the city adequately documents direct and indirect costs reported.

City’s Response

The city did not respond to the audit finding.

**FINDING 4—  
Errors made in  
computing flat-rate  
costs**

For FY 2000-01 through FY 2003-04, the city claimed a portion of its costs under the flat-rate reimbursement option. Under this method, reimbursable costs are based on the number of eligible meetings and a uniform cost allowance per meeting. We noted the following errors:

- For FY 2000-01, the city claimed 12 meetings that were also claimed in FY 2001-02. We determined that these meetings related to FY 2001-02.
- For FY 2000-01 through FY 2002-03, the city claimed costs under the standard method costs that were determined to be unallowable based on unsupported allocable percentages of employee time spent on mandated activities (refer to Finding 2). However, the unallowable agendas are allowable as reimbursable meetings using the flat rate method.

The parameters and guidelines for the Open Meetings Act/Brown Act Reform specify that only actual increased costs incurred in the performance of the mandated activities are reimbursable.

The parameters and guidelines permit the county to claim costs using the flat-rate option. Under the flat-rate option, the county can claim a uniform cost allowance for each meeting.

The following table summarizes our adjustment to claimed meetings using the flat-rate method:

	Fiscal Year			Total
	2000-01	2001-02	2002-03	
Civil Service Commission	(12)	—	—	(12)
Youth Advisory Commission	11	12	12	35
Cultural Heritage Board	—	11	11	22
Public Arts Advisory Committee	—	—	10	10
Total number of meetings	(1)	23	33	55
Uniform cost allowance	\$ 109.90	\$ 112.35	\$ 113.97	
Audit adjustment (rounded)	\$ (110)	\$ 2,584	\$ 3,761	\$ 6,235

Recommendation

We recommend that the city ensure that it claims costs that are eligible costs, are based on actual costs, and are properly supported.

City’s Response

The city did not respond to the audit finding.

**State Controller's Office  
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