

# MERCED COUNTY

Audit Report

## PESTICIDE USE REPORTS PROGRAM

Chapter 1200, Statutes of 1989

*July 1, 2002, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

May 2008



**JOHN CHIANG**  
California State Controller

May 7, 2008

Stephen Jones  
Auditor-Controller  
Merced County  
2222 M Street  
Merced, CA 95340

Dear Mr. Jones:

The State Controller's Office audited the costs claimed by Merced County for the legislatively mandated Pesticide Use Reports Program (Chapter 1200, Statutes of 1989) for the period of July 1, 2002, through June 30, 2006.

The county claimed and was paid \$362,947 for the mandated program. Our audit disclosed that \$238,767 is allowable and \$124,180 is unallowable. The unallowable costs resulted because the county understated offsetting revenues, claimed costs for unallowable activities, and understated costs for allowable expenditures. The State will offset \$124,180 from other mandated-program payments due the county. Alternatively, the county may remit this amount to the State.

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

cc: David Robinson, Agricultural Commissioner  
Merced County  
JoAnne Payan, Assistant Director, Administration  
Department of Pesticide Regulation, Merced County  
Amise Severns, Chief  
Fiscal Services & Business Operations  
Department of Pesticide Regulation, Merced County  
Lynn Owen, Acting Chief  
Product Compliance Branch  
Department of Pesticide Regulation, Merced County  
Adrienne Watson, Budget Officer  
Department of Pesticide Regulation, Merced County  
George Farnsworth, Environmental Program Manager I  
Department of Pesticide Regulation, Merced County  
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 Merced County for the legislatively mandated Pesticide Use Reports Program (Chapter 1200, Statutes of 1989) for the period of July 1, 2002, through June 30, 2006.

The county claimed and was paid \$362,947 for the mandated program. Our audit disclosed that \$238,767 is allowable and \$124,180 is unallowable. The unallowable costs resulted because the county understated offsetting revenues, claimed costs for unallowable activities, and understated costs for allowable expenditures. The State will offset \$124,180 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

## Background

Chapter 1200, Statutes of 1989, added and amended Food and Agricultural Code section 12979 by requiring increased pesticide reporting requirements for pesticide users—including all agricultural users—and increasing recordkeeping requirements for pesticide dealers that are licenses by the State. It also requires county agricultural commissioners to issue operator and site identification numbers to specified persons, inspect and audit certain records, and file the newly required pesticide use reports with the State.

On November 19, 1992, the Commission on State Mandates determined that Chapter 1200, Statutes of 1989, imposed a state mandate reimbursable under Government Code section 17561.

## Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Pesticide Use Reports Program for the period of July 1, 2002, through June 30, 2006.

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 county'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 county'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, Merced County claimed and was paid \$362,947 for costs of the Pesticide Use Reports Program. Our audit disclosed that \$238,767 is allowable and \$124,180 is unallowable.

**Views of  
Responsible  
Officials**

We issued a draft audit report on February 27, 2008. We contacted Ronald Kinchloe, Assistant Auditor-Controller-Recorder-Clerk, and Dan Cismowski, Assistant Agricultural Commissioner (retired), by e-mail on April 1, 2008, to inquire whether or not the county was going to submit a response to the draft report. Neither Mr. Kinchloe nor Mr. Cismowski responded to the e-mail or to the draft report.

**Restricted Use**

This report is solely for the information and use of Merced County, 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

May 7, 2008

**Schedule 1—  
Summary of Program Costs  
July 1, 2002, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Issuing identification numbers	\$ 2,855	\$ 2,855	\$ —	
Reviewing and filing with DPR	69,520	66,717	(2,803)	Finding 2
Auditing and inspecting records	1,413	2,305	892	Finding 2
Total direct costs	73,788	71,877	(1,911)	
Indirect costs	26,733	26,041	(692)	Finding 2
Total direct and indirect costs	100,521	97,918	(2,603)	
Less offsetting revenues	—	(28,637)	(28,637)	Finding 1
Net costs	<u>\$ 100,521</u>	69,281	<u>\$ (31,240)</u>	
Less amount paid by the State		(100,521)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (31,240)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Issuing identification numbers	\$ 3,201	\$ 3,201	\$ —	
Reviewing and filing with DPR	71,902	65,979	(5,923)	Finding 2
Auditing and inspecting records	3,035	4,122	1,087	Finding 2
Total direct costs	78,138	73,302	(4,836)	
Indirect costs	22,347	20,964	(1,383)	Finding 2
Total direct and indirect costs	100,485	94,266	(6,219)	
Less offsetting revenues	—	(34,196)	(34,196)	Finding 1
Net costs	<u>\$ 100,485</u>	60,070	<u>\$ (40,415)</u>	
Less amount paid by the State		(100,485)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (40,415)</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Issuing identification numbers	\$ 2,793	\$ 2,793	\$ —	
Reviewing and filing with DPR	87,918	79,396	(8,522)	Finding 2
Auditing and inspecting records	1,861	2,725	864	Finding 2
Total direct costs	92,572	84,914	(7,658)	
Indirect costs	27,494	25,219	(2,275)	Finding 2
Total direct and indirect costs	120,066	110,133	(9,933)	
Less offsetting revenues	—	(29,591)	(29,591)	Finding 1
Net costs	<u>\$ 120,066</u>	80,542	<u>\$ (39,524)</u>	
Less amount paid by the State		(120,066)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (39,524)</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Issuing identification numbers	\$ 3,053	\$ 3,053	\$ —	
Reviewing and filing with DPR	83,692	75,466	(8,226)	Finding 2
Auditing and inspecting records	4,885	6,158	1,273	Finding 2
Total direct costs	91,630	84,677	(6,953)	
Indirect costs	26,793	24,760	(2,033)	Finding 2
Total direct and indirect costs	118,423	109,437	(8,986)	
Less offsetting revenues	(76,548)	(80,563)	(4,015)	Finding 1
Net costs	<u>\$ 41,875</u>	28,874	<u>\$ (13,001)</u>	
Less amount paid by the State		(41,875)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (13,001)</u>		
<u>Summary: July 1, 2002, through June 30, 2006</u>				
Direct costs:				
Issuing identification numbers	\$ 11,902	\$ 11,902	\$ —	
Reviewing and filing with DPR	313,032	287,558	(25,474)	
Auditing and inspecting records	11,194	15,310	4,116	
Total direct costs	336,128	314,770	(21,358)	
Indirect costs	103,367	96,984	(6,383)	
Total direct and indirect costs	439,495	411,754	(27,741)	
Less offsetting revenues	(76,548)	(172,987)	(96,439)	
Net costs	<u>\$ 362,947</u>	238,767	<u>\$ (124,180)</u>	
Less amount paid by the State		(362,947)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (124,180)</u>		

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



# Findings and Recommendations

## **FINDING 1— Understated revenue offsets**

The county understated offsetting revenues by \$96,439 for the audit period. In its fiscal year (FY) 2005-06 claim, the county included revenue offsets totaling \$76,548 for mill tax assessments and unclaimed gas tax allotments. However, the county also received revenues allocable to the mandate from unclaimed gas tax allotments and mill tax assessments for FY 2002-03 through FY 2004-05. The county also received revenues during all four years of the audit period for its data entry contract with the Department of Pesticide Use Regulation (DPR). Revenues from these sources totaled \$172,987 for the audit period.

The program's parameters and guidelines specify that any offsetting savings or reimbursements received from any source as a result of the mandate shall be identified and deducted.

The following table summarizes the audit adjustment by fiscal year:

Fiscal Year	Offsetting Revenues	Amount Claimed	Amount per Audit	Audit Adjustment
2002-03	Mill tax assessment	\$ —	\$ 10,213	\$ (10,213)
	Unclaimed gas tax	—	6,788	(6,788)
	PUR contract for data entry	—	11,636	(11,636)
	Subtotal	—	28,637	(28,637)
2003-04	Mill tax assessment	—	12,135	(12,135)
	Unclaimed gas tax	—	10,668	(10,668)
	PUR contract for data entry	—	11,393	(11,393)
	Subtotal	—	34,196	(34,196)
2004-05	Mill tax assessment	—	10,916	(10,916)
	Unclaimed gas tax	—	8,365	(8,365)
	PUR contract for data entry	—	10,310	(10,310)
	Subtotal	—	29,591	(29,591)
2005-06	Mill tax assessment	50,217	61,723	(11,506)
	Unclaimed gas tax	26,331	9,048	17,283
	PUR contract for data entry	—	9,792	(9,792)
	Subtotal	76,548	80,563	(4,015)
	Total	\$ 76,548	\$ 172,987	\$ (96,439)

### **Mill Tax Assessment**

DPR allocates these state funds to counties to help fund county pesticide use enforcement costs within the county Agricultural Commissioner's Office. The disbursement of these funds is based on total expenditures and is in direct proportion to each county's reported expenditure level. DPR reported mill tax assessments paid to Merced County for pesticide use enforcement costs totaling \$94,987 during the audit period (\$10,213 for FY 2002-03, \$12,135 for FY 2003-04, \$10,916 for FY 2004-05, and \$61,723 for FY 2005-06). However, the county included only revenue offsets totaling \$50,217 for FY 2005-06. As a result, revenue offsets were understated by \$44,770 during the audit period.

### Unclaimed Gas Tax Allotments

These state funds are allocated to counties under the state Food and Agricultural Code to help fund all of the activities carried out by the county Agricultural Commissioner's Office. These funds are apportioned to the counties in relation to each county's expenditures to the total amount expended by all counties for such agricultural programs. DPR reported unclaimed gas tax allotments paid to Merced County for pesticide use regulation activities totaling \$34,869 during the audit period (\$6,788 for FY 2002-03, \$10,668 for FY 2003-04, \$8,365 for FY 2004-05, and \$9,048 for FY 2005-06). However, the county included only revenue offsets totaling \$26,331 for FY 2005-06. As a result, revenue offsets were understated by \$8,538 for the audit period.

### Pesticide Use Report Contract for Data Entry

The county entered into a pesticide use report (PUR) agreement with DPR for data entry. The parameters and guidelines (Section VIII) specifically state that the contract for electronic submittal of pesticide use reports between the county and the DPR must be deducted from any costs claimed. However, the county did not deduct any offsetting revenues for the audit period for its pesticide use reporting contract with DPR. As a result, the county understated offsetting revenues by \$43,131 for the audit period.

The county correctly pointed out that the contract work includes activities that are both mandate-related and non-mandate-related. The county determined that its percentage of mandate related activities performed under the pesticide use reporting contract with DPR was 46.76%. DPR reviewed the county's calculations and agreed with the county's percentage.

The following table summarizes the understated offsetting revenues related to the pesticide use report agreement for data entry by fiscal year:

<u>Fiscal Year</u>	<u>PUR Data Entry Contract Amounts</u>	<u>PUR Mandate Percentage</u>	<u>Audit Adjustment</u>
2002-03	\$ 24,884	46.76%	\$ 11,636
2003-04	24,364	46.76%	11,393
2004-05	22,048	46.76%	10,310
2005-06	20,940	46.76%	9,792
	<u>\$ 92,236</u>		<u>\$ 43,131</u>

### State Department of Pesticide Regulation Proposal

In March 2007, DPR requested that the Commission on State Mandates revise the parameters and guidelines to require counties to complete an offsetting revenue worksheet prior to claim submittal. If this proposal is adopted, DPR will post the revenue information on its Web site, at <http://www.cdpr.ca.gov/docs/enfcompli/prenffrm/.htm>.

Until then, DPR will make this worksheet available to any county that requests it.

Recommendation

We recommend that the county obtain the offsetting revenue worksheet from DPR prior to filing its claim to ensure that all applicable revenues are offset from the claim.

County’s Response

The county did not respond to the audit finding.

**FINDING 2—  
Unallowable salaries  
and benefits**

The county claimed \$336,128 in salaries and benefits and \$103,367 in related indirect costs for the audit period. Salaries and benefits totaling \$21,358 were unallowable because \$82,699 of the costs are not identified in the parameters and guidelines as reimbursable. In addition, the county understated \$57,225 for costs associated with its data entry contract with DPR and \$4,116 associated with its inspection of grower and dealer pest control records. Related indirect costs totaled \$6,383.

The following table summarizes the audit adjustments by reimbursable component:

Reimbursable Component	Amount Claimed	Amount Allowed	Audit Adjustment
Issuing identification numbers	\$ 11,902	\$ 11,902	\$ —
Reviewing and filing with DPR	313,032	287,558	(25,474)
Auditing and inspecting records	11,194	15,310	4,116
Total direct costs	336,128	314,770	(21,358)
Indirect costs	103,367	96,984	(6,383)
Total	\$ 439,495	\$ 411,754	\$ (27,741)

**Reviewing and Filing with DPR**

The county claimed \$313,032 in salaries and benefits for the audit period for the cost component of reviewing and filing with DPR. We determined that \$287,558 is allowable and \$25,474 is unallowable. The unallowable costs resulted because the county claimed \$82,699 for ineligible clerical costs and understated \$57,225 for allowable PUR data entry costs.

*Indirect Clerical Costs*

The county claimed reimbursement for direct costs totaling \$82,699 (\$14,782 for FY 2002-03, \$19,315 for FY 2003-04, \$23,645 for FY 2004-05, and \$24,957 for FY 2005-06) for clerical costs that were already identified as indirect costs in its indirect cost rate proposal (ICRP). These costs were unallowable. The unallowable costs represent a proportionate share of the county’s unallocated administrative time. For example, the county determined that pesticide use reporting consisted of 19.45% of its total direct clerical hours for FY 2002-03, 25.42% for FY 2003-04, 26.87% for FY 2004-05, and 21.10% for FY 2005-06. The county then multiplied these percentages by the unallocated indirect administrative time for each respective year and claimed the result as a direct cost on the mandate. This created a situation in which indirect

costs were being claimed twice, once through the county's ICRP and again through the direct charge of a percentage of unallocated administrative time, as described above.

The parameters and guidelines state that all costs claimed must be traceable to source documents that show evidence and validity of the claimed costs. In addition, the parameters and guidelines (section VIB(3)) states that "indirect costs may be claimed either by using 10% of direct labor as an indirect cost rate or by preparing a departmental indirect cost rate proposal to determine the rate."

#### *PUR Data Entry Contract Costs*

During the November 1, 2007, exit conference, we informed the county that the revenues it received for the DPR contract for data entry costs must be offset on its claims. The parameters and guidelines specifically state "... the contract for electronic submittal of pesticide use reports between the county and DPR must be deducted from any costs claimed." The county agreed to offset the revenue received for the data entry costs; however, it stated that related expenditures of \$122,379 were not included on its mandate claims for any of the fiscal years of the audit period. Accordingly, county representatives requested that they be allowed to include these additional costs; we agreed. However, we adjusted the county's data entry expenditures by 46.76%, which the county determined is its percentage of mandate-related activities, as noted in Finding 1.

The following table summarizes the understated DPR data entry contract expenditures:

<u>Fiscal Year</u>	<u>DPR Data Entry Costs</u>	<u>DPR Mandate Percentage</u>	<u>Audit Adjustment</u>
2002-03	\$ 25,619	46.76%	\$ 11,980
2003-04	28,638	46.76%	13,391
2004-05	32,341	46.76%	15,123
2005-06	35,781	46.76%	16,731
	<u>\$ 122,379</u>		<u>\$ 57,225</u>

We noted that the 46.76% the county calculated for mandate-related activities was established during a five year period from FY 1990-91 through FY 1995-96. The county explained that its calculation was based on an old county activity report to DPR (Report 5) that was used until July 1, 1996. Since then, revised DPR reports do not generate the data necessary to properly compute the mandate-related percentage. Because cropping, weather, and pesticide use patterns change over time, the county should update the mandate-related percentage periodically (e.g., every five years), based on actual PUR records (lines of mandated PUR to total lines of PUR) submitted during that interval.

#### Auditing and Inspecting Records

For the cost component of auditing and inspecting records, the county claimed \$11,194 in salaries and benefits for the audit period. We determined that \$15,310 is allowable. We made the audit adjustment because the county did not originally claim allowable inspection costs of \$4,116.

### *Additional Inspection Costs*

During the November 1, 2007 exit conference, we informed the county that a portion of its expenditures for pest control record inspections should be offset because it receives an apportionment of mill assessment based on the total number of pesticide use enforcement program inspections it completes per Title 3 of the California Code of Regulations, section 6393, subdivision (d)(2)(A). The county responded that none of the pest control record inspections should be offset because they do not relate to the mandate. However, DPR determined that 1 of the 14 requirements (or 7.14%) on the Dealer Inspection List and 4 of the 34 requirements (or 11.76%) on the Grower Inspection List do relate to the mandate. The county subsequently agreed to multiply the number of grower and dealer inspections by the respective percentages and offset them on the claim. Offsetting revenues totaling \$1,121 for this activity are already included in the mill tax assessments noted in Finding 1.

The county agreed with the offsetting adjustment; however, it correctly noted that related inspection costs of \$4,116 (\$892 for FY 2002-03, \$1,087 for FY 2003-04, \$864 for FY 2004-05, and \$1,273 for FY 2005-06) were not included in their claims. Accordingly, we adjusted claimed costs to include these mandate-related expenditures.

The following table summarizes the overstated costs by fiscal year:

Cost Category	Fiscal Year				Total
	2002-03	2003-04	2004-05	2005-06	
Reviewing and filing with DPR:					
Unallowable clerical costs	\$ (14,782)	\$ (19,315)	\$ (23,645)	\$ (24,957)	\$ (82,699)
DPR contract for data entry	11,980	13,391	15,123	16,731	57,225
Auditing and inspecting records:					
Additional inspection costs	892	1,087	864	1,273	4,116
Total direct costs	<u>(1,910)</u>	<u>(4,837)</u>	<u>(7,658)</u>	<u>(6,953)</u>	<u>(21,358)</u>
Indirect costs	\$ (692)	\$ (1,383)	\$ (2,275)	\$ (2,033)	(6,383)
Total	<u>\$ (2,602)</u>	<u>\$ (6,220)</u>	<u>\$ (9,933)</u>	<u>\$ (8,986)</u>	<u>\$ (27,741)</u>

### Recommendation

We recommend that the county ensure that all claimed costs are allowable per parameters and guidelines for the mandated program. In addition, the county should ensure that all claimed costs are supported by appropriate source documentation. Documentation should identify the mandated functions performed and support the actual number of hours devoted to each function.

### County's Response

The county did not respond to the audit finding.

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**