MONTEREY COUNTY

Audit Report

PESTICIDE USE REPORTS PROGRAM

Chapter 1200, Statutes of 1989

July 1, 1998, through June 30, 2000

STEVE WESTLY
California State Controller

February 2003

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California State Controller

February 14, 2003

Mr. Eric Lauritzen
Agricultural Commissioner
Monterey County
1428 Abbott Street
Salinas, CA 93901

Dear Mr. Lauritzen:

The State Controller's Office has completed an audit of the claims filed by Monterey County for costs of the legislatively mandated Pesticide Use Reports Program (Chapter 1200, Statutes of 1989) for the period of July 1, 1998, through June 30, 2000.

The county claimed and was paid $127,447 for the mandated program. Our audit disclosed that none of the claimed costs are allowable. The unallowable costs resulted from the county reporting unsupported costs and understating applicable revenue offsets on its claims. The total amount should be returned to the State.

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

Sincerely,

Original signed by

WALTER BARNES
Chief Deputy State Controller, Finance

WB:kmm

cc: The Honorable Jack L. Skillicorn
Auditor-Controller
Monterey County
Kyle Stewart
Finance Manager
Agricultural Commissioner's Office
Monterey County

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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Monterey County for costs of the legislatively mandated Pesticide Use Reports Program (Chapter 1200, Statutes of 1989) for the period of July 1, 1998, through June 30, 2000. The last day of fieldwork was September 12, 2002.

The county claimed and was paid $127,447 for the mandated program. The audit disclosed that none of the claimed costs are allowable. The unallowable costs resulted from the county reporting unsupported costs and understating applicable revenue offsets on its claims. The total amount should be returned to the State.

Background

In 1989, the State enacted Chapter 1200, Statutes of 1989, which increased pesticide use reporting requirements on pesticide users to include all agricultural users; increased recordkeeping requirements on pesticide dealers that are licensed by the State; and required 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 ruled that Chapter 1200, Statutes of 1989, imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines, adopted by the Commission on State Mandates, establishes state mandates and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

The objective of the audit was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Pesticide Use Reports Program (Chapter 1200, Statutes of 1989) for the period of July 1, 1998, through June 30, 2000.

The auditor performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the county's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the county's management controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the Findings and Recommendations section of this report and in the accompanying Summary of Program Costs (Schedule 1).

For the audit period, Monterey County claimed and was paid $127,447 for costs of the legislatively mandated Pesticide Use Reports Program. The audit disclosed that none of the costs are allowable.

For fiscal year (FY) 1998-99, the county was paid $101,200 by the State. The audit disclosed that none of the costs are allowable. The amount paid in excess of allowable costs claimed, totaling $101,200, should be returned to the State.

For FY 1999-2000, the county was paid $26,247 by the State. The audit disclosed that none of the costs are allowable. The amount paid in excess of allowable costs claimed, totaling $26,247, should be returned to the State.

Views of Responsible Official

The SCO issued a draft audit report on December 27, 2002. Kyle Stewart, Finance Manager in the county Agricultural Commissioner's Office, responded by telephone on January 23, 2003, stating that the county chose not to contest the audit results.

Restricted Use

This report is solely for the information and use of Monterey County 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

Findings and Recommendations

FINDING 1— Labor costs overclaimed

The county overclaimed salary and related fringe benefit costs by $104,500 as follows:

a. The county claimed labor costs for staff biologists related to the issuance of restricted pesticide use permits. However, this function was required before the mandate was enacted, resulting in an overclaim of $59,855.

b. The county claimed labor costs for the issuance of operator identification numbers (OID) based on an estimated average time per unit. However, its estimates were not supported by statistical information it submitted to the state Department of Pesticide Regulation (DPR), resulting in an overclaim of $23,391.

c. In FY 1999-2000, the county claimed labor costs for the Chief Deputy Agricultural Commissioner for support of the OID issuance function at a higher rate than in prior years with no documentation to support the increase, resulting in an overclaim of $930.

d. The county claimed a portion of labor hours for data entry staff performing unrestricted pesticide use reporting that were not supported by the county's payroll register, resulting in an overclaim of $10,137.

e. The county claimed labor costs for data entry hours using productive hourly labor rates that exceeded the audited rates, resulting in an overclaim of $6,649.

f. The county claimed labor hours for its Chief Deputy Agricultural Commissioner and a senior typist clerk based on a percentage of gross annual hours, but applied an hourly rate based on productive hours only, resulting in an overclaim of $1,437.

g. The county claimed labor costs of $2,101 as a direct cost for a staff position described as a departmental information system coordinator (DISC). However, this position was included as an indirect cost on the county's Annual Financial Statement submitted to the California Department of Food and Agriculture (CDFA) and, therefore, is unallowable as a direct cost.

Parameters and Guidelines for the mandated program specifies that only actual increased costs incurred in the performance of the mandated activities and supported by appropriate documentation are reimbursable. Further, costs claimed as indirect costs cannot also be claimed as direct costs.

As a result, claimed salary and fringe benefit costs have been adjusted as follows:

	Audit Adjustment			
	Issuing ID Numbers	Reviewing and Filing With DPR	Auditing and Inspecting Records	Total
Fiscal Year 1998-99:				
Item a	$ (59,855)	$ —	$ —	$ (59,855)
Item b	(3,340)	—	—	(3,340)
Item c	—	—	—	—
Item d	—	—	(3,678)	(3,678)
Item e	—	—	(4,226)	(4,226)
Item f	(573)	(133)	(568)	(1,274)
Item g	—	—	—	—
Totals, FY 1998-99	(63,768)	(133)	(8,472)	(72,373)
Fiscal Year 1999-2000:				
Item a	—	—	—	—
Item b	(20,051)	—	—	(20,051)
Item c	(930)	—	—	(930)
Item d	—	—	(6,459)	(6,459)
Item e	—	—	(2,423)	(2,423)
Item f	(85)	(78)	—	(163)
Item g	—	—	(2,101)	(2,101)
Totals, FY 1999-2000	(21,066)	(78)	(10,983)	(32,127)
Totals	$ (84,834)	$ (211)	$ (19,455)	$ (104,500)

Recommendation

The county should ensure that all costs claimed are eligible increased costs incurred as a result of the mandate, and are supported by its accounting records.

FINDING 2— Indirect costs overclaimed

Indirect costs claimed were not supported by the indirect cost rate computation prepared by the county as part of its Annual Financial Statement submitted to the CDFA. The Annual Financial Statement is the basis for most state funding of the county's agricultural programs from CDFA and DPR. In addition, the indirect costs claimed were based on a computation that:

- Did not include approximately $1 million in direct salaries in each fiscal year;
- Included expenditures in FY 1998-99 that exceeded amounts in the final expenditure ledger; and
- Included substantial costs as indirect costs that should have been classified as direct charges to other programs.

Parameters and Guidelines and the SCO’s claiming instructions require the county, when claiming an indirect cost rate exceeding 10%, to submit with its claim a departmental indirect cost rate proposal prepared in accordance with federal Office of Management and Budget (OMB) Circular A-87 (*Cost Principles for State, Local, and Indian Tribal Governments*). OMB Circular A-87 specifies that indirect costs are allowable only when costs cannot reasonably be identified to a particular program, and are allocated to each program relative to the benefits received. Furthermore, costs must be consistent with policies that apply uniformly to all programs.

The SCO has allowed a 10% indirect cost rate as follows:

	Audit Adjustment		
	FY 1998-99	FY 1999-2000	Total
Indirect costs claimed	$ (55,291)	$ (23,509)	$ (78,800)
Indirect costs allowed (10%)	1,788	1,184	2,972
Amount overclaimed	$ (53,503)	$ (22,325)	$ (75,828)

Recommendation

The county should ensure that indirect costs claimed are supported by an acceptable indirect cost rate proposal prepared in accordance with OMB Circular A-87.

FINDING 3— Revenue offsets misstated

The county misstated revenues allocable to the mandate, which are required to be deducted on its claims. The county received revenues from the following sources:

- *Unclaimed gas tax allotment*—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. The county did not offset any of these revenues on its claims because it believed this revenue was not allocable to the mandate.

- *Mill tax assessment*—These state funds are allocated to counties by DPR to help fund county pesticide use enforcement costs within the county Agricultural Commissioner's Office. The county offset a portion of these revenues based on the costs it claimed for the mandate. The SCO auditor reduced the amount offset due to the audit adjustments made to claimed program costs in the findings above.

- *Memorandum of understanding*—These state funds are allocated by DPR to counties under the *Food and Agricultural Code* to help fund the county's mandated activities. The county was not aware that these revenues received in FY 1998-99 should be offset on its claim.

- *DPR pesticide application reporting contract*—DPR reimburses the county $0.30 per line for electronically submitting to DPR information on each application of restricted and unrestricted pesticides within the county. In FY 1999-2000, the county used the wrong allocation percentage to compute the required revenue offset.

Parameters and Guidelines specifies that any offsetting savings or reimbursements received by the county from any source as a result of this mandate shall be identified and deducted so only net county costs are claimed.

As a result, claimed revenue offsets have been adjusted as follows:

	Amount Claimed	Amount Per Audit	Audit Adjustment
Fiscal Year 1998-99:			
Unclaimed gas tax allotment	$ —	$ (7,708)	$ (7,708)
Mill tax assessment	(26,758)	(11,326)	15,432
Memorandum of understanding	—	(90,000)	(90,000)
DPR pesticide application reporting contract	(33,705)	(33,950)	(245)
Totals, FY 1998-99	(60,463)	(142,984)	(82,521)
Fiscal Year 1999-2000:			
Unclaimed gas tax allotment	—	(3,660)	(3,660)
Mill tax assessment	(14,087)	(5,817)	8,270
Memorandum of understanding	—	—	—
DPR pesticide application reporting contract	(33,950)	(23,907)	10,043
Totals, FY 1999-2000	(48,037)	(33,384)	14,653
Totals	$ (108,500)	$ (176,368)	$ (67,868)

Recommendation

The county should ensure that all applicable revenues are offset on its claims against its mandated program costs.

Schedule 1— Summary of Program Costs July 1, 1998, through June 30, 2000

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference [1]
July 1, 1998, through June 30, 1999				
Direct costs:				
Issuing ID numbers	$ 74,603	$ 10,835	$ (63,768)	
Reviewing and filing with DPR	745	612	(133)	
Auditing and inspecting records	31,024	22,552	(8,472)	
Total direct costs	106,372	33,999	(72,373)	Finding 1
Indirect costs	55,291	1,788	(53,503)	Finding 2
Total costs	161,663	35,787	(125,876)	
Less offsetting revenues	(60,463)	(142,984)	(82,521)	Finding 3
Net costs	101,200	(107,197)	(208,397)	
Adjustment to increase allowable costs to zero	—	107,197	107,197	
Adjusted net costs	$ 101,200	—	$ (101,200)	
Less amount paid by the State		(101,200)		
Amount paid in excess of allowable costs		$ 101,200		
July 1, 1999, through June 30, 2000				
Direct costs:				
Issuing ID numbers	$ 27,022	$ 3,940	$ (23,082)	
Reviewing and filing with DPR	551	466	(85)	
Auditing and inspecting records	23,202	14,242	(8,960)	
Total direct costs	50,775	18,648	(32,127)	Finding 1
Indirect costs	23,509	1,184	(22,325)	Finding 2
Total costs	74,284	19,832	(54,452)	
Less offsetting revenues	(48,037)	(33,384)	14,653	Finding 3
Net costs	26,247	(13,552)	(39,799)	
Adjustment to increase allowable costs to zero	—	13,552	13,552	
Adjusted net costs	$ 26,247	—	$ (26,247)	
Less amount paid by the State		(26,247)		
Amount paid in excess of allowable costs		$ 26,247		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference[1]
Summary: July 1, 1998, through June 30, 2000				
Direct costs:				
Issuing ID numbers	$ 101,625	$ 14,775	$ (86,850)	
Reviewing and filing with DPR	1,296	1,078	(218)	
Auditing and inspecting records	54,226	36,794	(17,432)	
Total direct costs	157,147	52,647	(104,500)	Finding 1
Indirect costs	78,800	2,972	(75,828)	Finding 2
Total costs	235,947	55,619	(180,328)	
Less offsetting revenues	(108,500)	(176,368)	(67,868)(	Finding 3
Net costs	127,447	(120,749)	(248,196)	
Adjustment to increase allowable costs to zero	—	120,749	120,749	
Adjusted net costs	$ 127,447	—	$ (127,447)	
Less amount paid by the State		(127,447)		
Amount paid in excess of allowable costs		$ 127,447		

[1] See the Findings and Recommendations section.

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