# LYNWOOD UNIFIED SCHOOL DISTRICT

Audit Report

# **COLLECTIVE BARGAINING PROGRAM**

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

July 1, 2000, through June 30, 2004



JOHN CHIANG
California State Controller

January 2007



January 17, 2007

California State Controller

Dhyan Lal, Ed.D, Superintendent Lynwood Unified School District 11321 Bullis Road Lynwood, CA 90262

Dear Dr. Lal:

The State Controller's Office audited the costs claimed by Lynwood Unified School 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, 2000, through June 30, 2004.

The district claimed and was paid \$1,094,706 (\$1,095,706 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$727,936 is allowable and \$366,770 is unallowable. The unallowable costs occurred primarily because the district claimed ineligible and unsupported costs. The district should return \$366,770 to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). 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 COSM's Web site, at 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.

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/vb:ams

cc: Bill Agopian, Business Manager

Lynwood Unified School District

**Aubrey Craig** 

Director of Fiscal Services

Lynwood Unified School District

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# **Contents**

## **Audit Report**

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Officials	3
Restricted Use	3
Schedule 1—Summary of Program Costs	4
Findings and Recommendations	6

# **Audit Report**

## **Summary**

The State Controller's Office (SCO) audited the costs claimed by the Lynwood Unified School 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, 2000, through June 30, 2004. The last day of fieldwork was June 6, 2005.

The district claimed and was paid \$1,094,706 (\$1,095,706 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$727,936 is allowable and \$366,770 is unallowable. The unallowable costs occurred primarily because the district claimed ineligible and unsupported costs. The district should return \$366,770 to the State.

## **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 [COSM]) 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, requiring school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding.

On August 20, 1998, COSM determined that this legislation also imposed a state mandate upon school districts reimbursable under *Government Code* Section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that districts 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. COSM 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 districts 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, 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 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.

#### 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 Lynwood Unified School District claimed and was paid \$1,094,706 (\$1,095,706 less a \$1,000 penalty for filing a late claim) for costs of the Collective Bargaining Program. Our audit disclosed that \$727,936 is allowable and \$366,770 is unallowable.

For fiscal year (FY) 2000-01, the State paid the district \$324,972. Our audit disclosed that \$191,741 is allowable. The district should return \$133,231 to the State.

For FY 2001-02, the State paid the district \$300,057. Our audit disclosed that \$222,354 is allowable. The district should return \$77,703 to the State.

For FY 2002-03, the State paid the district \$278,670. Our audit disclosed that \$207,062 is allowable. The district should return \$71,608 to the State.

For FY 2003-04, the State paid the district \$191,007. Our audit disclosed that \$106,779 is allowable. The district should return \$84,228 to the State.

## Views of Responsible Official

We issued a draft audit report on March 15, 2006. We contacted Bill Agopian, Business Manager, by telephone on May 3, 2006. Mr. Agopian did not respond to our query as to whether or not the district intended to respond to the draft audit report.

This final audit report revises Findings 4 and 6, and eliminates Finding 5 from our draft audit report issued March 15, 2006. As a result, allowable costs increased by \$204,813. The revised Finding 4 has been renumbered as Finding 5. In addition, the revision to Finding 6 of the draft report has been renumbered as Finding 4. We advised Mr. Agopian and Audrey Craig, Director of Fiscal Services, of the changes to the audit report on January 9, 2007.

#### **Restricted Use**

This report is solely for the information and use of the Lynwood Unified School District, Los Angeles County Office of Education, the California Department of Education, 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, 2000, through June 30, 2004

Cost Elements  July 1, 2000, through June 30, 2001		ctual Costs Claimed		Allowable per Audit	_A	Audit Adjustment	Reference <sup>1</sup>
Components G1 through G3: Salaries and benefits Materials and supplies	\$	123,751 194	\$	131,241	\$	7,490 (194)	Finding 1 Finding 2
Contracted services		153,369		27,846		(125,523)	Finding 3
Total increased direct costs, G1 through G3		277,314		159,087	_	(118,227)	
Components G4 through G7: Salaries and benefits Contracted services		22,465 13,495		8,095 13,427		(14,370) (68)	Finding 1 Finding 3
Total increased direct costs, G4 through G7		35,960		21,522		(14,438)	_
Total increased direct costs Indirect costs		313,274 11,698		180,609 11,132		(132,665) (566)	Findings 1, 2, 5
Total program costs Less amount paid by the State	\$	324,972		191,741 (324,972)	\$	(133,231)	
Allowable costs claimed in excess of (less than) amoun	t pai	d	\$	(133,231)			
July 1, 2001, through June 30, 2002	-						
Components G1 through G3: Salaries and benefits Materials and supplies	\$	175,362	\$	168,927	\$	(6,435)	Finding 1
Contracted services		100,098	_	21,964	_	(78,134)	Finding 3
Total increased direct costs, G1 through G3	_	275,460	_	190,891	_	(84,569)	
Components G4 through G7: Salaries and benefits Materials and supplies Travel Contracted services		7,397 490 90 1,971		5,398 — 90 1,836		(1,999) (490) — (135)	Finding 1 Finding 2 Finding 3
Total increased direct costs, G4 through G7		9,948		7,324		(2,624)	
Total increased direct costs Indirect costs		285,408 14,649		198,215 24,139		(87,193) 9,490	Findings 1, 2, 4, 5
Total program costs	\$	300,057		222,354	\$	(77,703)	
Less amount paid by the State			_	(300,057)			
Allowable costs claimed in excess of (less than) amoun	t pai	d	\$	(77,703)			
July 1, 2002, through June 30, 2003							
Components G1 through G3: Salaries and benefits Materials and supplies Contracted services	\$	143,247 275 13,608	\$	134,311 — 12,798	\$	(8,936) (275) (810)	Finding 1 Finding 2 Finding 3
Total increased direct costs, G1 through G3		157,130		147,109		(10,021)	

# Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference 1
<u>July 1, 2002, through June 30, 2003</u> (continued)				
Components G4 through G7: Salaries and benefits Materials and supplies Contracted services	17,205 4,159 74,817	4,031 — 34,646	(13,174) (4,159) (40,171)	Finding 1 Finding 2 Finding 3
Total increased direct costs, G4 through G7	96,181	38,677	(57,504)	
Total increased direct costs Indirect costs	253,311 25,359	185,786 21,276	(67,525) (4,083)	Findings 1, 2, 5
Total program costs Less amount paid by the State	\$ 278,670	207,062 (278,670)	\$ (71,608)	
Allowable costs claimed in excess of (less than) amount	paid	\$ (71,608)		
July 1, 2003, through June 30, 2004				
Components G1 through G3: Salaries and benefits Materials and supplies Contracted services Total increased direct costs, G1 through G3	\$ 31,315 114 58,908 90,337	\$ 30,094 	\$ (1,221) (114) 114 (1,221)	Finding 1 Finding 2 Finding 3
Components G4 through G7: Materials and supplies Travel Contracted services	13,561 608 82,959		(13,561) (608) (67,293)	Finding 2 Finding 2 Finding 3
Total increased direct costs, G4 through G7	97,128	15,666	(81,462)	C
Total increased direct costs Indirect costs	187,465 4,542	104,782 2,997	(82,683) (1,545)	Findings 1, 2, 5
Total direct and indirect costs Less late penalty	192,007 (1,000)	107,779 (1,000)	(84,228)	
Total program costs Less amount paid by the State	\$ 191,007	106,779 (191,007)	\$ (84,228)	
Allowable costs claimed in excess of (less than) amount	paid	\$ (84,228)		
Summary: July 1, 2000, through June 30, 2004				
Total increased direct costs Indirect costs Total direct and indirect costs Less late penalty	\$ 1,039,458 56,248 1,095,706 (1,000)	\$ 669,392 59,544 728,936 (1,000)	(370,066) 3,296 (366,770)	
Total program costs Less amount paid by the State	\$ 1,094,706	727,936 (1,094,706)	\$ (366,770)	
Allowable costs claimed in excess of (less than) amount	paid	\$ (366,770)		

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 $<sup>^{1}\,</sup>$  See the Findings and Recommendations section.

# **Findings and Recommendations**

FINDING 1— Unallowable salary, benefit, and related indirect costs

The district claimed unallowable salary and benefit costs totaling \$38,645 for the audit period. The related indirect costs, based on the claimed indirect cost rates for each fiscal year, total \$4,747. The audit adjustment resulted from the following issues.

#### **Productive Hourly Rates**

The district reported inaccurate productive hourly rates. As a result, the district understated allowable salary and benefit costs in the net amount of \$8,113 for the audit period. The district calculated incorrect productive hourly rates because of the following errors.

- The district used incorrect employee salary rates to calculate productive hourly rates. We calculated audited productive hourly rates based on salary rates documented in the district's payroll records.
- The district overstated employee benefit rates. We calculated audited productive hourly rates based on benefit costs documented in the district's payroll records.
- The district claimed overtime costs for a salaried employee who did not earn overtime pay.
- The district understated an employee's annual productive hours, causing it to overstate the productive hourly rate.

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

		Fiscal Year					
	2000-01	200	1-02	2002-03	2003-04	Total	
Salaries and benefits:							
Components G1-G3	\$ 7,456	\$	(8)	\$ 649	\$ (306)	\$ 7,791	
Components G4-G7	460		<u> </u>	(138)		322	
Audit adjustment	\$ 7,916	\$	(8)	\$ 511	\$ (306)	\$ 8,113	

#### **Unsupported Hours Claimed**

The district claimed understated or overstated hours for various employees. As a result, the district overstated salary and benefit costs in the net amount of \$19,379 for the audit period. The district claimed inaccurate mandate-related hours, as follows.

- The district claimed overtime hours for salaried employees who did not earn overtime pay.
- The district claimed duplicate costs.
- The district made mathematical errors in preparing the mandated cost claim.

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

	2000-01	2001-02	2002-03	2003-04	Total
Salaries and benefits:					
Components G1-G3	\$ 166	\$(5,962)	\$ (9,585)	\$ (915)	\$(16,296)
Components G4-G7		(1,999)	(1,084)		(3,083)
Audit adjustment	\$ 166	\$(7,961)	\$(10,669)	\$ (915)	\$(19,379)

#### **Non-Mandate-Related Costs**

The district claimed unsupported salary and benefit costs totaling \$8,132 for fiscal year (FY) 2002-03. The district claimed these costs under component G6–Contract administration. The district identified the costs as grievance adjudication; however, the district did not provide documentation showing that the costs were mandate-related.

#### **Training Costs**

The district claimed unallowable employee training costs totaling \$18,650 (\$14,830 for FY 2000-01 and \$3,820 for FY 2002-03). The district claimed these costs under component G6–Contract administration. The district's supporting documentation shows that the costs claimed included costs to attend conferences and workshops, which are not reimbursable under the mandated program.

#### **Substitute Teacher Costs**

The district claimed unallowable substitute teacher costs totaling \$597 (\$132 for FY 2000-01 and \$465 for FY 2001-02). The district claimed these costs under component G3–Costs of negotiations. The unallowable costs occurred because, for several negotiation sessions, the district claimed costs for six substitute teachers, one more than the maximum of five substitute teachers reimbursable under the mandated program. In addition, the district claimed substitute teacher costs for union representatives who did not attend negotiation sessions and for one representative who did not require a substitute.

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

	2000-01	2001-02	2002-03	2003-04	Total
Components G1-G3:					
Productive hourly rate	\$ 7,456	\$ (8)	\$ 649	\$ (306)	\$ 7,791
Unsupported hours claimed	166	(5,962)	(9,585)	(915)	(16,296)
Substitute teacher costs	(132)	(465)			(597)
Total components G1-G3	7,490	(6,435)	\$ (8,936)	\$ (1,221)	\$ (9,102)
Components G4-G7:					
Productive hourly rate	460		(138)		322
Unsupported hours claimed	_	(1,999)	(1,084)	_	(3,083)
Non-mandate-related costs	_	_	(8,132)	_	(8,132)
Training costs	(14,830)		(3,820)		(18,650)

	2000-01	2001-02	2002-03	2003-04	Total
Total components G4-G7	(14,370)	(1,999)	(13,174)		\$ (29,543)
Total direct costs	(6,880)	(8,434)	(22,110)	(1,221)	(38,645)
Indirect costs	(550)	(674)	(3,401)	(122)	(4,747)
Audit adjustment	\$ (7,430)	\$ (9,108)	\$ (25,511)	\$ (1,343)	\$ (43,392)

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 that reimbursable costs include, "the cost of substitutes for release time of exclusive bargaining unit representatives during negotiations. . . . Substitute costs for a maximum of five representatives per unit, per negotiation session will be reimbursed."

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."

#### Recommendation

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

## FINDING 2— Misclassified materials and supplies, and travel costs

The district overstated materials and supplies costs by \$18,793 and overstated travel costs by \$608 for the audit period. The related indirect costs, based on the claimed indirect cost rate for each fiscal year, total \$2,160. The overstated costs occurred because the district incorrectly reported contracted services costs as materials and supplies costs and travel costs. Finding 3 identifies the understated contracted services costs.

The following table summarizes the audit adjustment.

	Fiscal Year									
	2000-	)1	20	001-02	2002-0	3	20	003-04		Total
Components G1-G3: Materials and supplies	\$ (19	4)	\$		\$ (275	<u>5)</u>	\$	(114)	\$	(583)
Components G4-G7: Materials and supplies Travel		_ 		(490)	(4,159	<del>)</del> )	(1	3,561) (608)	(	18,210) (608)
Total components G4-G7		_		(490)	(4,159	<del>)</del> )	(1	4,169)	\$(	18,818)
Total direct costs Indirect costs	(19 (1	(4) (6)		(490) (39)	(4,434	/		4,283) (1,423)	(	19,401) (2,160)
Audit adjustment	\$ (21	0)	\$	(529)	\$(5,116	<u>5)</u>	\$(1	5,706)	\$(	21,561)

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.

## FINDING 3— Unallowable contracted services costs

The district claimed unallowable contracted services costs totaling \$312,020 for the audit period (\$125,591 for FY 2000-01, \$78,269 for FY 2001-02, \$40,981 for FY 2002-03, and \$67,179 for FY 2003-04). The audit adjustment resulted from the following issues.

#### **Financial Analysis Costs**

The district claimed \$202,906 for the audit period (\$124,840 for FY 2000-01 and \$78,066 for FY 2001-02) under component G3–Costs of negotiations for consulting service fees incurred in developing financial analyses that the district used in negotiation meetings with the bargaining unions. The consultant's invoices described these services as, "assist in providing financial calculations and information for the district negotiation team inclusive of the development of compensation scenario with associated long-range financial impact." However, districts do not engage in mandate-reimbursable activities under component G3–Costs of negotiations until after financial analyses are completed. The mandated program did not add a requirement stating that districts must conduct financial analyses. Therefore, the district was not required to incur financial analysis costs.

#### **Grievance Adjudication Costs**

The district claimed unallowable costs totaling \$113,440 for the audit period (\$44,074 for FY 2002-03 and \$69,366 for FY 2003-04) under component G6—Contract administration. The district claimed these costs for attorney and arbitration services performed to adjudicate contract disputes. However, the auditor was unable to verify that these costs were related to collective bargaining because the district was unable to provide any correlation between the description of the grievance cases identified in attorney invoices and the description in the district's employee grievance files. As a result, the district did not provide for our review supporting documentation that would allow us to determine that claimed costs were incurred for reimbursable activities under the mandate program.

#### **Misclassified Costs**

The district understated contract services costs by \$19,401 for the audit period, as previously identified in Finding 2. The understated costs occurred because the district incorrectly reported contracted services costs as materials and supplies costs and travel costs.

#### **Training Costs**

The district claimed unallowable training costs totaling \$12,842 for the audit period (\$490 for FY 2001-02, \$256 for FY 2002-03, and \$12,096 for FY 2003-04) under component G6–Contract administration. The district claimed costs for generic contract administration-related workshops and an employee development conference. However, the mandated program limits reimbursable training to training held for supervisory and management personnel on contract administration and interpretation of the negotiated contract.

#### **Unsupported Costs**

The district claimed unallowable costs totaling \$1,958 for the audit period (\$945 for FY 2000-01, \$203 for FY 2001-02, and \$810 for FY 2002-03). The district overstated the number of hours attorneys spent performing reimbursable activities.

#### **Duplicate Costs**

For FY 2002-03, the district claimed duplicate costs totaling \$275 for an arbitration-hearing transcript.

The following table summarizes the audit adjustments for unallowable financial analysis costs, misclassified costs from Finding 2, overstated attorney costs, and duplicate costs claimed.

	2000-01	2001-02	2002-03	2003-04	Total
Contracted services:					
Component G3: Financial analysis					
costs	\$ (124,840)	\$ (78,066)	\$ —	\$ —	\$ (202,906)
Misclassified costs	194		275	114	583
Unsupported costs	(877)	(68)	(810)		(1,755)
Duplicate costs			(275)		(275)
Total component G3	(125,523)	(78,134)	(810)	114	(204,353)
Components G6-G7: Grievance adjudi-					
cation costs			(44,074)	(69,366)	(113,440)
Misclassified costs	_	490	4,159	14,169	18,818
Training costs	_	(490)	(256)	(12,096)	(12,842)
Unsupported costs	(68)	(135)			(203)
Total components					
G6-G7	(68)	(135)	(40,171)	(67,293)	(107,667)
Audit adjustment	\$ (125,591)	\$ (78,269)	\$ (40,981)	\$ (67,179)	\$ (312,020)

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

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 requires the district to specify the mandaterelated functions that consultants performed relative to the mandate and to provide itemized costs for such services.

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

#### Recommendation

The district should develop and implement an effective control and reporting system to ensure that all claimed costs are properly classified, eligible, and adequately supported.

#### FINDING 4— Understated indirect cost rate

The district understated indirect costs by \$10,203 for FY 2001-02 because it understated the indirect cost rate by 5.85%. The district used an indirect cost rate of 7.99% applicable for costs claimed for FY 2000-01 instead of the indirect cost rate approved by the Department of Education for FY 2001-02 of 13.84%.

The following table summarizes the unallowable indirect costs.

	Fiscal Year 2001-02
Allowable salaries and benefits Allowable materials and supplies	\$ 174,325 90
Allowable direct costs Understated indirect cost rate claimed	174,415 × 5.85%
Audit adjustment	\$ 10,203

Parameters and Guidelines also states that school districts must use the non-restrictive indirect cost rate provisionally approved by CDE to claim indirect costs.

#### Recommendation

We recommend that the district use CDE-approved rates to claim indirect costs.

### FINDING 5— Indirect cost pools overstated

The district's indirect cost pools included direct mandate-related costs claimed for the audit period. Therefore, the indirect cost pools and the resulting indirect cost rates were overstated. As a result, the district recovered duplicate costs when it applied its indirect cost rates to federal and state-funded programs. The following table shows the mandate-related direct costs that were also included in the indirect cost pools.

	Fiscal Year								
	2000-01 2001-02		2002-03	2003-04					
Salaries and benefits Materials and supplies	\$ 126,337 41,273	\$ 117,413 23,800	\$ 101,887 47,444	\$ 16,328 74,688					
Total	\$ 167,610	\$ 141,213	\$ 149,331	\$ 91,016					

We allowed the direct costs claimed because the costs are mandaterelated and properly supported. Although the indirect cost rates claimed were overstated, we concluded that the mandate-related indirect costs claimed were not materially affected. Therefore, we allowed the related indirect costs claimed. However, we did not calculate the duplicate costs that the district recovered by applying the overstated indirect cost rates to other federal and state-funded programs.

Office of Management and Budget Circular A-87, Attachment A, states that direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are costs incurred for a common or joint purpose benefiting more than one cost objective, but are not readily assignable to the cost objectives benefited without effort disproportionate to the results achieved.

#### Recommendation

We recommend that the district notify the California Department of Education (CDE) that the district overstated its indirect cost rates by including mandate-related direct costs in its indirect cost pools. We recommend that the district work with the CDE to adjust subsequent years' indirect cost rates to account for the rates that were overstated during the audit period.

We also recommend that the district work with the CDE to identify the appropriate codes from CDE's standardized account code structure that the district should use when costs are charged directly to federal and state-funded programs.

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