

# **POWAY UNIFIED SCHOOL DISTRICT**

Audit Report

## **COLLECTIVE BARGAINING AND COLLECTIVE BARGAINING AGREEMENT DISCLOSURE PROGRAM**

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

*July 1, 2008, through June 30, 2011*



**BETTY T. YEE**  
California State Controller

February 2015



**BETTY T. YEE**  
California State Controller

February 24, 2015

Kimberley Beatty, President  
Board of Education  
Poway Unified School District  
15250 Avenue of Science  
San Diego, CA 92128

Dear Ms. Beatty:

The State Controller's Office audited the costs claimed by Poway Unified School District for the legislatively mandated Collective Bargaining and Collective Bargaining Agreement Disclosure Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2008, through June 30, 2011.

The district claimed \$558,318 for the mandated program. Our audit found that \$255,042 is allowable and \$303,276 is unallowable. The costs are unallowable primarily because the district claimed unsupported costs and claimed costs that were ineligible for reimbursement. The State paid the district \$40,005. The State will pay allowable costs claimed that exceed the amount paid, totaling \$215,037, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (Commission). 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 the Commission's website at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

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

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/mh

cc: Malliga Tholandi, Associate Superintendent  
Poway Unified School District  
Naomi Sweet, Administrative Assistant  
Poway Unified School District  
Brent Watson, Executive Director  
Business Advisory Services  
San Diego County Office of Education  
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Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Poway Unified School District for the legislatively mandated Collective Bargaining and Collective Bargaining Agreement Disclosure Program (Chapter 961, Statutes of 1975; and Chapter 1213, Statutes of 1991) for the period of July 1, 2008, through June 30, 2011.

The district claimed \$558,318 for the mandated program. Our audit found that \$255,042 is allowable and \$303,276 is unallowable. The costs are unallowable primarily because the district claimed unsupported costs and claimed costs that were ineligible for reimbursement. The State paid the district \$40,005. The State will pay allowable costs claimed that exceed the amount paid, totaling \$215,037, contingent upon available appropriations.

## 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 [Commission]) 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, the Commission 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 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

The program's parameters and guidelines establish the State mandate and define the reimbursement criteria. The Commission adopted the parameters and guidelines on October 22, 1980 and amended them ten times, most recently on January 29, 2010. 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.

## **Objectives, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Collective Bargaining and Collective Bargaining Agreement Disclosure Program for the period of July 1, 2008, through June 30, 2011.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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. Our audit scope did not assess the efficiency or effectiveness of program operations.

To achieve our audit objectives, we performed the following audit procedures:

- Interviewed employees, completed the internal control questionnaire, and performed a walk-through of the cost components of each claim.
- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities.

**Conclusion**

Our audit found 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, Poway Unified School District claimed \$558,318 for costs of the Collective Bargaining and Collective Bargaining Agreement Disclosure Program. Our audit found that \$255,042 is allowable and \$303,276 is unallowable.

For the fiscal year (FY) 2008-09 claim, the State paid the district \$25,321. Our audit found that \$60,819 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$35,498, contingent upon available appropriations.

For the FY 2009-10 claim, the State paid the district \$14,684. Our audit found that \$95,535 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$80,851, contingent upon available appropriations.

For the FY 2010-11 claim, the State made no payment to the district. Our audit found that \$98,688 is allowable. The State will pay that amount, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft audit report on January 30, 2015. Malliga Tholandi, Associate Superintendent, responded by letter dated February 6, 2015 (Attachment), disagreeing with Findings 1 and 2, and agreeing with Findings 3 and 4. This final report includes the district's response.

**Restricted Use**

This report is solely for the information and use of Poway Unified School District, the San Diego 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, CPA  
Chief, Division of Audits

February 24, 2015

## Schedule 1— Summary of Program Costs July 1, 2008, through June 30, 2011

| Cost Elements  | Actual Costs<br>Claimed | Allowable<br>per Audit | Audit<br>Adjustments | Reference <sup>1</sup> |
|--|-------------------------|------------------------|----------------------|------------------------|
| <u>July 1, 2008, through June 30, 2009</u>                             |                         |                        |                      |                        |
| Direct Costs   |                         |                        |                      |                        |
| Component activities G1 through G3:                                    |                         |                        |                      |                        |
| Salaries and Benefits  | \$ 122,403              | \$ 48,042              | \$ (74,361)          | Finding 1              |
| Contract Services  | 24,239                  | 13,174                 | (11,065)             | Finding 2              |
| Subtotal   | 146,642                 | 61,216                 | (85,426)             |                        |
| Less base-year direct costs adjusted by the<br>Implicit Price Deflator | —                       | (11,174)               | (11,174)             | Finding 3              |
| Increased direct costs, G1 through G3                                  | 146,642                 | 50,042                 | (96,600)             |                        |
| Component activities G4 through G7:                                    |                         |                        |                      |                        |
| Salaries and Benefits  | 18,461                  | 7,229                  | (11,232)             | Finding 1              |
| Contract Services  | 31,079                  | 1,080                  | (29,999)             | Finding 2              |
| Increased direct costs, G4 through G7                                  | 49,540                  | 8,309                  | (41,231)             |                        |
| Total increased direct costs, G1 through G7                            | 196,182                 | 58,351                 | (137,831)            |                        |
| Indirect costs   | 8,299                   | 2,468                  | (5,831)              | Finding 4              |
| Total program costs  | <u>\$ 204,481</u>       | 60,819                 | <u>\$ (143,662)</u>  |                        |
| Less amount paid by the State  |                         | (25,321)               |                      |                        |
| Allowable costs claimed in excess of (less than) amount paid           |                         | <u>\$ 35,498</u>       |                      |                        |
| <u>July 1, 2009, through June 30, 2010</u>                             |                         |                        |                      |                        |
| Direct Costs   |                         |                        |                      |                        |
| Component activities G1 through G3:                                    |                         |                        |                      |                        |
| Salaries and Benefits  | \$ 108,586              | \$ 59,270              | \$ (49,316)          | Finding 1              |
| Contract Services  | 26,975                  | 14,475                 | (12,500)             | Finding 2              |
| Subtotal   | 135,561                 | 73,745                 | (61,816)             |                        |
| Less base-year direct costs adjusted by the<br>Implicit Price Deflator | —                       | (11,298)               | (11,298)             | Finding 3              |
| Increased direct costs, G1 through G3                                  | 135,561                 | 62,447                 | (73,114)             |                        |
| Component activities G4 through G7:                                    |                         |                        |                      |                        |
| Salaries and Benefits  | 23,564                  | 18,051                 | (5,513)              | Finding 1              |
| Contract Services  | 20,857                  | 10,766                 | (10,091)             | Finding 2              |
| Increased direct costs, G4 through G7                                  | 44,421                  | 28,817                 | (15,604)             |                        |
| Total increased direct costs, G1 through G7                            | 179,982                 | 91,264                 | (88,718)             |                        |
| Indirect costs   | 7,613                   | 4,271                  | (3,342)              | Finding 4              |
| Total program costs  | <u>\$ 187,595</u>       | 95,535                 | <u>\$ (92,060)</u>   |                        |
| Less amount paid by the State  |                         | (14,684)               |                      |                        |
| Allowable costs claimed in excess of (less than) amount paid           |                         | <u>\$ 80,851</u>       |                      |                        |

## Schedule 1 (continued)

| Cost Elements  | Actual Costs<br>Claimed | Allowable<br>per Audit | Audit<br>Adjustments | Reference <sup>1</sup> |
|--|-------------------------|------------------------|----------------------|------------------------|
| <u>July 1, 2010, through June 30, 2011</u>                             |                         |                        |                      |                        |
| Direct Costs   |                         |                        |                      |                        |
| Component activities G1 through G3:                                    |                         |                        |                      |                        |
| Salaries and Benefits  | \$ 83,086               | \$ 52,634              | \$ (30,452)          | Finding 1              |
| Contract Services  | 39,219                  | 25,053                 | (14,166)             | Finding 2              |
| Subtotal   | 122,305                 | 77,687                 | (44,618)             |                        |
| Less base-year direct costs adjusted by the<br>Implicit Price Deflator | —                       | (11,563)               | (11,563)             | Finding 3              |
| Increased direct costs, G1 through G3                                  | 122,305                 | 66,124                 | (56,181)             |                        |
| Component activities G4 through G7:                                    |                         |                        |                      |                        |
| Salaries and benefits  | 7,836                   | 4,432                  | (3,404)              | Finding 1              |
| Contract services  | 29,446                  | 24,181                 | (5,265)              | Finding 2              |
| Increased direct costs, G4 through G7                                  | 37,282                  | 28,613                 | (8,669)              |                        |
| Total increased direct costs, G1 through G7                            | 159,587                 | 94,737                 | (64,850)             |                        |
| Indirect costs   | 6,655                   | 3,951                  | (2,704)              | Finding 4              |
| Total program costs  | <u>\$ 166,242</u>       | 98,688                 | <u>\$ (67,554)</u>   |                        |
| Less amount paid by the State  |                         | —                      |                      |                        |
| Allowable costs claimed in excess of (less than) amount paid           |                         | <u>\$ 98,688</u>       |                      |                        |
| <u>Summary: July 1, 2008, through June 30, 2011</u>                    |                         |                        |                      |                        |
| Direct Costs   |                         |                        |                      |                        |
| Component activities G1 through G3:                                    |                         |                        |                      |                        |
| Salaries and Benefits  | \$ 314,075              | \$ 159,946             | \$ (154,129)         |                        |
| Contract Services  | 90,433                  | 52,702                 | (37,731)             |                        |
| Subtotal   | 404,508                 | 212,648                | (191,860)            |                        |
| Less base-year direct costs adjusted by the<br>Implicit Price Deflator | —                       | (34,035)               | (34,035)             |                        |
| Increased direct costs, G1 through G3                                  | 404,508                 | 178,613                | (225,895)            |                        |
| Component activities G4 through G7:                                    |                         |                        |                      |                        |
| Salaries and Benefits  | 49,861                  | 29,712                 | (20,149)             |                        |
| Contract Services  | 81,382                  | 36,027                 | (45,355)             |                        |
| Increased direct costs, G4 through G7                                  | 131,243                 | 65,739                 | (65,504)             |                        |
| Total increased direct costs, G1 through G7                            | 535,751                 | 244,352                | (291,399)            |                        |
| Indirect costs   | 22,567                  | 10,690                 | (11,877)             |                        |
| Total program costs  | <u>\$ 558,318</u>       | 255,042                | <u>\$ (303,276)</u>  |                        |
| Less amount paid by the State  |                         | (40,005)               |                      |                        |
| Allowable costs claimed in excess of (less than) amount paid           |                         | <u>\$ 215,037</u>      |                      |                        |

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

# Findings and Recommendations

## FINDING 1— Overstated salaries and benefits

The district claimed \$363,936 in salaries and benefits during the audit period. We found that \$189,658 is allowable and \$174,278 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the audit period by reimbursable component:

|                         | Fiscal Year |             |             | Total        |
|-------------------------|-------------|-------------|-------------|--------------|
|                         | 2008-09     | 2009-10     | 2010-11     |              |
| <u>Claimed</u>          |             |             |             |              |
| Salaries and benefits:  |             |             |             |              |
| Component G1            | \$ —        | \$ 149      | \$ —        | \$ 149       |
| Component G3            | 122,403     | 108,437     | 83,086      | 313,926      |
| Component G4            | —           | 28          | —           | 28           |
| Component G6            | 18,438      | 23,376      | 7,598       | 49,412       |
| Component G7            | 23          | 160         | 238         | 421          |
| Total                   | 140,864     | 132,150     | 90,922      | 363,936      |
| <u>Allowable</u>        |             |             |             |              |
| Salaries and benefits:  |             |             |             |              |
| Component G1            | —           | 149         | —           | 149          |
| Component G3            | 48,042      | 59,121      | 52,634      | 159,797      |
| Component G4            | —           | 28          | —           | 28           |
| Component G6            | 7,206       | 17,863      | 4,194       | 29,263       |
| Component G7            | 23          | 160         | 238         | 421          |
| Total                   | 55,271      | 77,321      | 57,066      | 189,658      |
| <u>Audit Adjustment</u> |             |             |             |              |
| Salaries and benefits:  |             |             |             |              |
| Component G1            | —           | —           | —           | —            |
| Component G3            | (74,361)    | (49,316)    | (30,452)    | (154,129)    |
| Component G4            | —           | —           | —           | —            |
| Component G6            | (11,232)    | (5,513)     | (3,404)     | (20,149)     |
| Component G7            | —           | —           | —           | —            |
| Total                   | \$ (85,593) | \$ (54,829) | \$ (33,856) | \$ (174,278) |

The program's parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will only 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 that a school district is required to incur.

The parameters and guidelines allow districts "to claim and be reimbursed for increased costs for reimbursable activities" identified under seven components, G1 through G7.

The parameters and guidelines allow for the employer representatives' participation in negotiation and/or mediation planning sessions. The term "sessions" implies a meeting or gathering of more than one person.

The parameters and guidelines state that personal development and informational programs (i.e., classes, conferences, seminars, workshops) and time spent by employees attending such meetings are not reimbursable.

### **Component G3 - Cost of Negotiations**

The district claimed \$313,926 in salaries and benefits for the Cost of Negotiations cost component. We found that \$159,797 is allowable and \$154,129 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs.

#### *Ineligible Costs*

The district overstated costs by \$37,458 because the district:

- Claimed ineligible costs for time spent attending professional development meetings, totaling \$175 for fiscal year (FY) 2008-09. Time spent by employees attending professional development meetings not identified in the parameters and guidelines as a reimbursable activity.
- Claimed ineligible costs for negotiation preparation time, totaling \$37,283 (\$9,065, for FY 2008-09, \$19,710 for FY 2009-10, and \$8,508 for FY 2010-11). The district did not support that the time was spent in a planning session. The parameters and guidelines allow costs for negotiation planning sessions (G.3.b) for employer representatives and employees, which implies a session of more than one person. We allowed all costs the district supported for these planning sessions.

#### *Unsupported Costs*

The district overstated costs by \$116,671 during the audit period because the district:

- Did not support costs claimed for employees attending at-table negotiation sessions, resulting in an audit adjustment of \$13,262 (\$7,822 for FY 2008-09, \$3,364 for FY 2009-10, and \$2,076 for FY 2010-11). The district provided sign-in sheets in support of these costs. However, the sign-in sheets did not show that these employees attended the sessions.
- Did not provide any documentation supporting costs claimed for employees involved in negotiations, totaling \$103,122 (\$57,263 for FY 2008-09, \$26,242 for FY 2009-10, and \$19,617 for FY 2010-11).
- Claimed the costs of the same employee twice for at-table negotiations, totaling \$287 (\$36 for for FY 2008-09, and \$251 for FY 2010-11).

### *Claimed Costs in Wrong Fiscal Year*

The district incorrectly claimed FY 2008-09 at-table negotiation costs totaling \$237 in FY 2009-10. We moved the costs to the correct fiscal year (FY 2008-09).

### **Component G6 – Contract Administration**

The district claimed \$49,412 in salaries and benefits for the Contract Administration cost component. We found that \$29,263 is allowable and \$20,149 is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported costs.

#### *Ineligible Costs*

The district overstated costs totaling \$13,933 for the audit period because the district:

- Claimed ineligible costs for time spent attending professional development meetings, totaling \$8,936 (\$2,546 for FY 2008-09, \$3,584 for FY 2009-10, and \$2,806 for FY 2010-11). Time spent by employees attending professional development and informational programs (i.e., classes, conferences, seminars, workshops) are not identified in the parameters and guidelines as a reimbursable activity.
- Claimed ineligible cost for time spent attending layoffs and/or reduction workshops, totaling \$4,997 (\$3,258 for FY 2008-09, \$1,148 for FY 2009-10, and \$591 for FY 2010-11). Time spent related to the implementation of layoffs is not identified in the parameters and guidelines as a reimbursable activity. Costs related to layoffs are only reimbursable in reference to negotiating terms and conditions of a proposed contract.

#### *Unsupported Costs*

The district overstated costs by \$6,303 for the audit period because the district:

- Did not provide any documentation supporting costs claimed for employees involved in contract administration activities (contract training sessions and adjudicating contract disputes), totaling \$4,728 (\$4,408 for FY 2008-09 and \$320 for FY 2009-10).
- Did not support costs claimed for employees participating in contract administration activities, totaling \$1,249 (\$788 for FY 2008-09 and \$461 for FY 2009-10). The district provided sign-in sheets in support of these costs. However, the sign-in sheets did not show that these employees attended the meetings.
- Claimed ineligible costs for negotiation-related preparation time totaling \$326 (\$234 for FY 2008-09 and \$92 for FY 2010-11). The district did not support that the time was spent attending a negotiation planning session. The parameters and guidelines allow costs for negotiation planning sessions (G.3.b) under the Negotiation cost component for employer representatives and employees, which implies a session of more than one person.

*Understated Costs*

The district understated allowable costs by \$87 (\$2 for FY 2008-09 and \$85 for FY 2010-11).

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that all costs claimed are reimbursable per the parameters and guidelines, and are properly supported. Supporting documentation should identify the mandated functions performed as required by the claiming instructions.

District's Response

## A. COMPONENT G3 – COST OF NEGOTIATIONS &lt;\$154,129&gt;

Ineligible Costs <\$37,458>

## 1. Professional Development Advisory Board Meetings &lt;\$175&gt;

FY 2008-09 <\$175>

The audit report disallows the time spent participating in the Professional Development Advisory Board process because "time spent by employees attending professional development meetings [is] not identified in the parameters and guidelines as a reimbursable activity." See Finding 2 Overstated Contract Services, for the response to this issue.

## 2. Planning/Preparation Time &lt;\$37,283&gt;

FY 2008-09 <\$9,065> FY 2009-10 <\$19,710>

FY 2010-11 <\$8,508>

The audit report states that the District did not support the staff time spent in some planning sessions. Most of the disallowed time is individual preparation time. The audit report states that the parameters and guidelines allow costs for negotiation planning sessions for employer representatives and employees, but that "this implies a session of more than one person." It appears that planning time was allowed if there was a sign-in sheet for a group meeting (e.g., at-table), but not for individual planning time.

The parameters and guidelines language reimburses staff time for "participating in negotiations." There are no conditions or limitations stated on the nature of the reimbursable staff time, that is, individual preparation time is not excluded in the parameters and guidelines. There is no stated or reasonable inference from the parameters and guidelines language that planning is only a group activity. Individual or group planning is an anticipated rational and reasonably necessary part of any process in the usual course of business and the Controller has no basis to exclude it from this component or any other component.

Unsupported Costs <\$116,671>

## 3. At-Table Negotiations &lt;\$13,262&gt;

FY 2008-09 &lt;\$7,822&gt; FY 2009-10 &lt;\$3,364&gt;

FY 2010-11 &lt;\$2,076&gt;

The audit report states that the district did not support costs claimed for employees attending at-table negotiation sessions because some of the employee names did not appear on at-table session sign-in sheets. The staff time claimed is generally derived from meeting sign-in sheets, meeting minutes or agendas, individual time sheets, and extracts from the attorney billings, the audit report does not provide sufficient information to determine what staff time was not supported by other sources or what other support would be required.

## 4. Planning Time? &lt;\$103,122&gt;

FY 2008-09 &lt;\$57,264&gt; FY 2009-10 &lt;\$26,241&gt;

FY 2010-11 &lt;\$19,617&gt;

The audit report states that the district did not provide any documentation supporting costs claimed for employees involved in negotiation. If these disallowances pertain to individual preparation time, that eligibility issue has been discussed in item 2 above. Note that some staff preparation times are reported in bulk amounts, e.g., 40 hours, on one at-table session sign-in sheet, but are necessarily entered into the claim preparation software as five 8-hour days. This is particularly true for those persons who spend several days between sessions updating budget and salary cost information to be used for the session where the preparation time is noted on the sign-in sheet. The sign-in sheets also use "ditto marks" to indicate the same time for several persons attending which may have been construed by the auditor as a non-response. The staff time claimed is generally derived from meeting sign-in sheets, meeting minutes or agendas, individual time sheets, and extracts from the attorney billings. The audit report does not provide sufficient information to determine what staff time was not supported by other sources or what other support would be required.

## 5. Duplicate Time &lt;\$287&gt;

FY 2008-09 &lt;\$287&gt;

The audit report states that the district claimed the costs of the same employee twice for at-table negotiations, totaling \$287 for FY 2008-09. The district did not review this adjustment because it is immaterial.

## 6. Wrong Fiscal Year \$0

FY 2008-09 \$237 FY 2009-10 &lt;\$237&gt;

The district incorrectly claimed FY 2008-09 at-table negotiation costs totaling \$237 in FY 209-10. The auditor moved the costs to the correct fiscal year. The district does not dispute this adjustment.

B. COMPONENT G6 – CONTRACT ADMINISTRATION  
<\$20,149>

The District claimed \$49,412 in salaries and benefits for the Contract Administration cost component. The draft audit report found that \$29,263 is allowable and \$20,149 is unallowable because the District claimed "ineligible and unsupported costs." As a general note, it appears the audit disallows time claimed for principals and vice principals to participate in the contract administration committee process. These persons are District administrators and should be reimbursed for these activities.

Ineligible Costs <\$13,933>

1. Professional Development Meetings <\$8,937>

FY 2008-09 <\$2,547> FY 2009-10 <\$3,584>  
FY 2010-11 <\$2,806>

The audit report disallows the time spent participating in the Professional Development Advisory Board meetings because "[t]ime spent by employees attending professional development meetings [is] not identified in the parameters and guidelines as a reimbursable activity." The audit report incorrectly characterizes the claimed time as "attending, professional development and informational programs (i.e., classes, conferences, seminars, workshops)." The Professional Development Advisory Board was established by an MOU dated September 1, 2006 between the District and the Poway Federation of Teachers (a copy of which was provided at the entrance conference in the FY 2008-09 annual claim materials). The Board includes four union members and three District administrators. The Board meetings are not classes, conferences, seminars, or workshops. The Board is the steering committee for the District's professional development program for teachers which is an appropriate subject within the Rodda Act for collective bargaining. These characteristics make this Board similar to the contract administration committees (e.g., insurance committee) for which the time claimed was allowed by the Controller. This staff time is reimbursable.

2. Layoff Training <\$4,996>

FY 2008-09 <\$3,257> FY 2009-10 <\$1,148>  
FY 2010-11 <\$591>

The audit report states that the district claimed ineligible costs for administrator time spent attending layoffs and/or staff reduction workshops, because this is "[t]ime spent related to the implementation of layoffs [which] is not identified in the parameters and guidelines as a reimbursable activity." The parameters and guidelines document does not enumerate the subject matter of the collective bargaining; instead, it enumerates the process, e.g., unit determination, negotiations, and contract administration. The subject matter is controlled by the Rodda Act. The layoff process is a proper subject of the Rodda Act, and no further enumeration in the parameters and guidelines is necessary.

The audit report states, without a cite to the parameters and guidelines, that costs related to layoffs are only reimbursable in reference to "negotiating terms and conditions of a proposed contract." To the contrary, the parameters and guidelines, at G. 6, specifically provide for training on contract interpretation:

6. Contract administration and adjudication of contract disputes either by arbitration or litigation. Reimbursable functions include grievances and administration and enforcement of the contract.

c. 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. Similarly, purchases of books and subscriptions for personal development and information purposes are not reimbursable. Salaries and benefits must be shown as described in Item H3. Emphasis added.

The majority of the staff time at issue here is for a one-hour contract interpretation session on January 15, 2009. Only District administrators and principals attended. This is the exact type of training anticipated by the parameters and guidelines. The staff time for contract interpretation and training for interpretation should be allowed.

Unsupported Costs <\$6,303>

3. Contract Training and Contract Disputes <\$4,728>

FY 2008-09 <\$4,409> FY 2009-10 <\$319> FY 2010-11 \$0

The audit report states that the district did not provide any documentation supporting costs claimed for employees involved in contract administration activities, specifically contract training sessions and adjudicating contract disputes. The audit report does not provide sufficient information to determine what staff time was not supported and what support would be required.

4. Contract Administration <\$1,249>

FY 2008-09 <\$788> FY 2009-10 <\$461> FY 2010-11 \$0

The audit report states that the District did not support costs claimed for employees participating in contract administration activities, because the sign-in sheets did not show that these employees attended the meetings. The audit report does not provide sufficient information to determine what staff time was not supported and what support would be required.

## 5. Preparation Time &lt;\$326&gt;

FY 2008-09 &lt;\$235&gt; FY 2009-10 \$0 FY 2010-11 &lt;\$91&gt;

The audit report states that the District claimed ineligible costs for negotiation- related preparation time because it was not in the context of a "negotiation planning session." If these disallowances pertain to individual preparation time, that eligibility issue has been discussed in item A 2 above. The District cannot identify from the audit report the staff time at issue, so the issue is still in dispute.

Understated Costs &lt;\$87&gt;

FY 2008-09 \$2 FY 2009-10 \$0 FY 2010-11 \$85

The audit report states that the district understated staff time. The district does not dispute this adjustment.

SCO's Comments

The finding and recommendation remain unchanged. The district's response includes comments regarding ineligible, unsupported, and understated costs for the cost of negotiations and contract administration cost categories. We will address these comments in the order presented by the district.

**COMPONENT G3 – COST OF NEGOTIATIONS**Ineligible Costs

Refer to Finding 2, Overstated Contract Services, for the SCO's comments regarding ineligible costs. The ineligible costs relate to professional development advisory board meetings, which are not identified in the parameters and guidelines as reimbursable.

The district states that negotiation planning sessions should be allowable, as "there is no stated or reasonable inference from the parameters and guidelines language that planning is only a group activity." We disagree. The phrase "negotiation planning sessions," as found in section G3(b) of the parameters and guidelines, is not defined. However, the use of the term "sessions" is indicative of a meeting or gathering. An example of a negotiation planning session is a team meeting prior to negotiations, at which the members of the negotiating team discuss the upcoming negotiation session and strategize. This is distinct from individual members' use of time to review files or otherwise prepare for a negotiation or negotiation planning session.

Unsupported Costs

The district states that staff time claimed is generally derived from meeting sign-in sheets, meeting minutes or agendas, individual time sheets, and extracts from attorney billings, and that the audit report did not provide information to determine what staff time was not supported by other sources or what other support would be required. We disagree. The issue is not what other sources of documentation the district could

provide. The issue is that the source documentation provided (i.e., sign-in sheets, meeting minutes/agendas, time sheets, and attorney billings) did not indicate that the district employee(s) participated in the reimbursable activity. We allowed all costs the district supported with source documents that identified the individual performing the reimbursable activity and the collective bargaining activity involved.

The district also states that if the unsupported costs totaling \$103,122 “pertain to individual preparation time, that eligibility issue has been discussed.....” In this instance, the issue is not what activity was claimed. Once again, the issue is that the district did not provide any documentation supporting costs claimed for employees involved in negotiations. The parameters and guidelines state that only actual costs may be claimed. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activity.

The district did dispute the adjustment regarding the unallowable duplicate costs claimed totaling \$287.

The district incorrectly claimed FY 2008-09 at-table negotiation costs in FY 2009-10. The SCO moved the costs to the correct fiscal year. The district did not dispute this adjustment.

## **COMPONENT G6 – CONTRACT ADMINISTRATION**

### Ineligible Costs

For ineligible professional development meetings, the district states that the audit report incorrectly characterizes the claimed time for professional development meetings as “attending professional development meetings and informational programs...” The district adds that the Board Meetings are not classes, conferences, seminars, or workshops; the Board is the steering committee for the district’s professional development program for teachers, which is an appropriate subject within the Rodda Act for Collective Bargaining. We disagree. In an interview held on March 20, 2013, Noreen Walton, Director of Learning Support Services, explained that these monthly meetings are used to plan professional development activities. Teachers are able to design their professional learning for the Teacher’s Learning Cooperative (TLC). The more time the teachers put towards TLC the more points teachers receive, which could lead to a pay raise. The activities described above fall under the personal development and informational program category, and are not identified under the parameters and guidelines as reimbursable.

For ineligible layoffs and/or reduction workshops, the district states that the layoff process is controlled by the Rodda Act, and “no enumeration in the parameters and guidelines is necessary.” We disagree. While layoffs are common provisions of a contract, discussing the implementation of layoffs is not reimbursable. Further, layoffs, dismissals, and firings are not covered under Chapter 961, Statutes of 1975, and are not identified as a reimbursable activity in the parameters and guidelines or the SCO claiming instructions.

### Unsupported Costs

For the unsupported costs, the district states that the audit report does not provide sufficient information to determine what staff time was not supported and what support would be required. The district also states that ineligible preparation time should be allowable. The issue is not what support is required or what activity was performed. The issue, as stated in the draft report, is that the district did not provide any documentation supporting costs claimed for various employees involved in contract administration activities totaling \$6,303 for the audit period. Costs that the district supported with source documents identifying the individual(s) performing the reimbursable collective bargaining activities were allowable.

The parameters and guidelines state that in order to be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

### Understated Costs

The district understated costs totaling \$87. The district does not dispute the audit adjustment.

**FINDING 2—  
Overstated contract  
services**

The district claimed \$171,815 in contract services during the audit period. We found that \$88,729 is allowable and \$83,086 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the period by reimbursable component:

|                         | Fiscal Year |             |             | Total       |
|-------------------------|-------------|-------------|-------------|-------------|
|                         | 2008-09     | 2009-10     | 2010-11     |             |
| <u>Claimed</u>          |             |             |             |             |
| Salaries and benefits:  |             |             |             |             |
| Component G1            | \$ —        | \$ 2,025    | \$ —        | \$ 2,025    |
| Component G3            | 24,239      | 24,950      | 39,219      | 88,408      |
| Component G4            | —           | 776         | —           | 776         |
| Component G6            | 29,999      | 15,086      | 15,848      | 60,933      |
| Component G7            | 1,080       | 4,995       | 13,598      | 19,673      |
| Total                   | 55,318      | 47,832      | 68,665      | 171,815     |
| <u>Allowable</u>        |             |             |             |             |
| Salaries and benefits:  |             |             |             |             |
| Component G1            | —           | 2,025       | —           | 2,025       |
| Component G3            | 13,174      | 12,450      | 25,053      | 50,677      |
| Component G4            | —           | 776         | —           | 776         |
| Component G6            | —           | 4,995       | 10,583      | 15,578      |
| Component G7            | 1,080       | 4,995       | 13,598      | 19,673      |
| Total                   | 14,254      | 25,241      | 49,234      | 88,729      |
| <u>Audit Adjustment</u> |             |             |             |             |
| Salaries and benefits:  |             |             |             |             |
| Component G1            | —           | —           | —           | —           |
| Component G3            | (11,065)    | (12,500)    | (14,166)    | (37,731)    |
| Component G4            | —           | —           | —           | —           |
| Component G6            | (29,999)    | (10,091)    | (5,265)     | (45,355)    |
| Component G7            | —           | —           | —           | —           |
| Total                   | \$ (41,064) | \$ (22,591) | \$ (19,431) | \$ (83,086) |

The parameters and guidelines (section G) state:

Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

**Component G3 – Cost of Negotiations**

The district claimed \$88,408 in contract services for the Cost of Negotiations cost component. We found that \$50,677 is allowable and \$37,731 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs.

### *Ineligible Costs*

The district entered an agreement with a vendor to perform services related to legislative advocacy and collective bargaining (financial analysis, alternative provisions, preparation of options and proposals, and support of the board, superintendent, and staff) activities, totaling \$1,666.67 per month. The parameters and guidelines do not identify legislative advocacy as being a reimbursable activity. The district provided invoices supporting 11 monthly billings for FY 2008-09, and 7 monthly billings for both FY 2009-10, and FY 2010-11. The district did not support what percentage of the monthly billings related to reimbursable collective bargaining activities. Therefore, we allowed half of the supported monthly billings, totaling \$20,833 (\$9,167 for FY 2008-09, \$5,833 for both FY 2009-10, and FY 2010-11).

### *Unsupported Costs*

The district did not provide any documentation supporting costs claimed totaling \$16,898 (\$1,898 for FY 2008-09, \$6,667 for FY 2009-10, and \$8,333 for FY 2010-11).

### **Component G6 – Contract Administration**

The district claimed \$60,933 in contract services for the Contract Administration cost component. We found that \$15,578 is allowable and \$45,355 (\$29,999 for FY 2008-09, \$10,091 for FY 2009-10, and \$5,265 for FY 2010-11) is unallowable. The costs are unallowable because the district claimed costs to implement layoffs, which are not identified in the parameters and guidelines as a reimbursable activity. Costs related to layoffs are only reimbursable in reference to negotiating terms and conditions of a proposed contract.

### Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that all costs claimed are reimbursable per the parameters and guidelines, and are properly supported. Supporting documentation should identify the mandated functions performed as required by the claiming instructions.

### District's Response

#### A. COMPONENT G3 – COST OF NEGOTIATIONS <\$37,731>

##### Ineligible Costs <\$20,833>

##### 1. Consultant <\$20,833>

FY 2008-09 <\$9,167> FY 2009-10 <\$5,833>

FY 2010-11 <\$5,833>

The District contracts, in a single document, with School Services of California for Consulting services related to legislative

advocacy and collective bargaining activities, generally in the amount \$1,666.67 per month, except where consultant travel costs were reimbursed. The audit disallowed half of the claimed costs. The District agrees that "legislative advocacy" is not a reimbursable activity. However, the District is unable to corroborate with written documentation other than the vendor billings the percentage of the monthly billings related to reimbursable collective bargaining activities. The adjustment disallows half of the cost and seems to be a reasonable solution to the documentation problem based on an appraisal of the services provided.

Unsupported Costs <\$16,898>

2. No activity stated <\$16,898>

FY 2008-09 <\$1,898>, FY 2009-10 <\$6,667>, FY 2010-11 <\$8,333>

The audit report states that the District did not provide any documentation supporting these costs. There is insufficient information in the audit report to ascertain the contract costs in question, so the matter is still in dispute.

B. COMPONENT G6 – CONTRACT ADMINISTRATION <\$45,355>

Ineligible Costs <\$45,355>

3. Layoff Implementation <\$45,355>

FY 2008-09 <\$29,999> FY 2009-10 <\$10,091> FY 2010-11 <\$5,265>

The audit report states that the District claimed ineligible contractor costs for in [sic] the implementation of the staff reductions which is not identified in the parameters and guidelines as a reimbursable activity. The audit report states that costs related to layoffs are only reimbursable in reference to negotiating terms and conditions of a proposed contract. To the contrary, the parameters and guidelines, at G.6., state:

6. Contract administration and adjudication of contract disputes either by arbitration or litigation. Reimbursable functions include grievances and administration and enforcement of the contract. Emphasis added.

The time reported is principally for Human Resources administrators and staff to enforce the negotiated layoff procedure and should be allowed.

SCO's Comments

The finding and recommendation remain unchanged. The district's response includes comments regarding ineligible and unsupported costs for the cost of negotiations and contract administration cost categories. We will address these comments in the order presented by the district.

**COMPONENT G3 – COST OF NEGOTIATIONS**

Ineligible Costs

This adjustment reduces by half the consulting fees incurred by the district, as the services provided relate to collective bargaining and legislative advocacy activities. The district does not dispute this audit adjustment.

Unsupported Costs

The district states that there is insufficient information in the audit report to ascertain the contract costs in question. We disagree. As stated in the draft report, the district did not provide *any* documentation supporting costs claimed. The parameters and guidelines state that in order to be eligible for a mandated cost reimbursement for any fiscal year, only actual costs may be claimed. These costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities.

**COMPONENT G6 – CONTRACT ADMINISTRATION**

Ineligible Costs

The district states that the time reported for layoffs is “principally for Human Resources administrators and staff to enforce the negotiated layoff procedure and should be allowed.” We disagree. Layoffs are reimbursable only in reference to negotiating the terms and conditions of a proposed contract. Further, layoffs, dismissals, and firings are not covered under Chapter 961 of the Statute of 1975 and are not identified as a reimbursable activity in the parameters and guidelines or the SCO claiming instruction.

**FINDING 3—  
Unreported Winton  
Act base-year direct  
costs**

The district did not report any Winton Act direct costs on its mandated cost claims for FY 2008-09 through FY 2011-12. Specifically, the district did not offset the Winton Act base-year costs against the current-year Rodda Act costs for components G1 through G3, thus understating the Winton Act base-year costs by \$34,035 for the audit period.

The following table summarizes the calculation of the unreported Winton Act base-year cost adjustment by fiscal year:

| Winton Act Base-Year Costs                | Fiscal Year        |                    |                    | Total              |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 2008-09            | 2009-10            | 2010-11            |                    |
| Winton Act base-year costs, FY 1995-96    | \$ (2,523)         | \$ (2,523)         | \$ (2,523)         |                    |
| Implicit Price Deflator (IPD)             | × 4.429            | × 4.478            | × 4.583            |                    |
| Base-year costs adjusted by the IPD       | (11,174)           | (11,298)           | (11,563)           |                    |
| Less: reported Winton Act base-year costs | —                  | —                  | —                  |                    |
| Audit Adjustment                          | <u>\$ (11,174)</u> | <u>\$ (11,298)</u> | <u>\$ (11,563)</u> | <u>\$ (34,035)</u> |

The parameters and guidelines (Section H - Supporting Data for Claims-Report Format for Submission of Claim) state:

For component activities G1 through G3:

Determination of the “increased costs” for each of these three components requires the costs of current year Rodda Act activities to be offset [reduced] by the cost of the base-year Winton Act activities. The Winton Act base-year is generally fiscal year 1974-75.

Winton Act base-year costs are adjusted by the Implicit Price Deflator prior to offset against the current year Rodda Act costs for these three components. The Implicit Price Deflator shall be listed in the annual claiming instructions of the State Controller.

The Winton Act base-year costs were obtained from the FY 1995-96 claim the district submitted to the SCO’s Division of Accounting and Reporting. The Implicit Price Deflator (IPD) is reported in the SCO’s annual claiming instructions.

#### Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district ensure that all Winton Act base-year costs are adjusted by the IPD, as listed in the SCO’s annual claiming instructions, and are properly offset against the district’s current-year Rodda Act costs claimed.

#### District’s Response

The District did not report any Winton Act direct costs on its annual claims for the audit period because it had no record of the Winton Act costs. The District agrees that the FY 1974-75 Winton Act base-year costs, after application of a price-inflator each year, are properly offset against the claim year Rodda Act costs for matched components G1 through G3. The Controller obtained from its own records archive Winton Act costs of \$2,523 from the FY 1995-96 annual claim and performed the necessary calculations resulting in a reduction of Rodda Act costs by \$34,035 for the audit period. A copy of the FY 1995-96 annual claim is not included with the audit report so the District cannot ascertain either the amount or whether the Winton Act costs were matched to the appropriate Rodda Act components.

#### SCO’s Comments

The district agrees with the audit adjustment and requests a copy of the FY 1995-96 annual claim to verify the calculations made by the auditor. Refer to the Public Records Request section for further detail.

**FINDING 4—  
Overstated indirect  
costs**

The district claimed \$22,567 in indirect costs for the audit period. We found that \$10,690 is allowable and \$11,877 is unallowable. The costs are unallowable because the district overstated allowable direct costs for the audit period (see Findings 1 and 2) and applied an incorrect indirect cost rate of 4.23% to its increased direct costs for FY 2009-10.

The following table summarizes the audit adjustments to indirect costs by fiscal year:

| Calculation of adjustment                   | Fiscal Year |            |            | Total       |
|---|-------------|------------|------------|-------------|
|   | 2008-09     | 2009-10    | 2010-11    |             |
| Allowable increased costs                   | \$ 58,351   | \$ 91,264  | \$ 94,737  | \$ 244,352  |
| Multiplied by allowable indirect cost rates | 4.23%       | 4.68%      | 4.17%      |             |
| Allowable indirect costs                    | 2,468       | 4,271      | 3,951      | 10,690      |
| Less: claimed indirect costs                | (8,299)     | (7,613)    | (6,655)    | (22,567)    |
| Audit adjustment                            | \$ (5,831)  | \$ (3,342) | \$ (2,704) | \$ (11,877) |

The parameters and guidelines state:

School districts must use the Form J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education.

The district calculated indirect costs for FY 2009-10 by applying the California Department of Education (CDE) approved indirect cost rate for FY 2008-09. Specifically, the district applied an incorrect indirect cost rate of 4.23% to its increased direct costs for FY 2009-10 instead of the CDE-approved rate of 4.68%.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district calculates indirect costs consistent with the guidance provided in the SCO's claiming instructions.

District's Response

The District claimed \$22,567 in indirect costs for the audit period. The audit report found that \$10,690 is allowable and \$11,877 is unallowable. The disallowed costs result principally from the reduction of costs in Findings 1 and 2 after the indirect cost rate is applied to the remaining costs. This is mitigated by a reporting error for the FY 2009-10 indirect cost rate which the Controller increased to the CDE approved rate of 4.68% from 4.23%. The District agrees with the correction of the indirect cost rate.

SCO's Comments

The district agrees with the audit adjustment.

**OTHER  
COMMENTS—  
Waiver of Exit  
Conference**

District's Response

The District found it necessary to waive the exit conference. The auditor was unable to provide more than one-week notice which was not sufficient for the District to prepare for the meeting and include at the meeting the mandate claims consultant who prepared the claims. It appears that the short notice is a result of the soon to expire two-year statute of limitations to complete the audit. While the District was provided the work papers which detail the individual amounts disallowed, the amounts are not explained in the audit report by reason for disallowance and the summarized dollar amounts not always reconcilable to the source schedule. The exit conference could have provided clarification sufficient to make the response to the draft audit report more complete. Inasmuch as the conduct of the audit over time was in the control of your staff, the detrimental effect of this fast dash to finish line is their responsibility. The exit conference was waived because the District could not insist on more time and did not want to be the source of any delay in this process.

SCO's Comments

The SCO provided the district a narrative of the audit adjustments along with the schedules detailing the audit adjustment.

**OTHER  
COMMENTS—  
Public Records  
Request**

District's Response

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program. Government Code Section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

SCO's Comments

The SCO will respond to the district's request separately from this report.

**Attachment—  
District's Response to  
Draft Audit Report**

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BOARD OF EDUCATION  
Kimberley Beatty  
Michelle O'Connor-Ratcliff  
Andy Patapow  
Charles Sellers  
T.J. Zane

SUPERINTENDENT  
John P. Collins, Ed.D.



## POWAY UNIFIED SCHOOL DISTRICT

BUSINESS SUPPORT SERVICES

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February 6, 2015

Mr. Jim L. Spano, Chief  
Mandated Costs Audits Bureau  
Division of Audits  
California State Controller  
P.O. Box 942850  
Sacramento, CA 94250-5874

Re: Collective Bargaining Audit  
FY 2008-09 through FY 2010-11  
Poway Unified School District

Dear Mr. Spano:

This letter is the response of the Poway Unified School District to the draft audit report received by e-mail on February 2, 2015, for the above-referenced program and fiscal years transmitted by the letter dated January 30, 2015, from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

About half of the amounts claimed for reimbursement for the three fiscal years have been disallowed by the audit. In sum, where the Controller does not assert that the claimed costs were excessive or unreasonable, which is the only statutory mandated cost audit standard (Government Code Section 17561(d)(2)), the wrong standard of review was used. The audit report states that general auditing standards are the basis for the adjustments, but do not cite the specific standards which compel the Controller to make the adjustments, when these standards were adopted for mandate cost accounting, or how the standards even apply to mandated costs.

The audit report essentially asserts that a significant part of the staff time to implement the mandated activities is inappropriately or insufficiently documented.

The audit report cites the parameters and guidelines as the legal standard for source documentation:

The program's parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will only 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 that a school district is required to incur.

This citation provides no specific criteria of what constitutes "support" of the claimed costs. None of the governmental entities that establish the accounting standards and reporting requirements that school districts are subject to publish any standards or reporting requirements for state mandate cost accounting. Nor does the Controller, whose particular responsibility has been the payment and audit of the mandate annual claims for more than thirty years (specifically since 1980 for this mandate), publish cost accounting forms for use by claimants to record staff time spent on mandates. In the absence of governmental standards, districts must rely upon documentation produced in the regular course of business and forms designed by mandate consultants for the collection of staff mandate time not otherwise available from regular business records. Where these forms or other documentation were apparently sufficient, the auditor made qualitative judgments regarding the scope of activities as to whether they were related to the mandate program. Where it was not, the auditor disallowed the claimed costs for insufficient documentation. These choices are subjective because there are no cited criteria.

In a similar manner, a substantial amount of staff time is disallowed because the auditor concluded a separate and additional "corroborating" source document was not provided. The staff time claimed is generally derived from meeting sign-in sheets, meeting minutes or agendas, individual time sheets, and extracts from the attorney billings. Each of these sources meet the documentation requirements for annual claims. The audit does not indicate what additional source document should be reasonably available in the usual course of business or strictly required by any published mandate cost accounting standard. Uniform compliance would be more likely if the Controller published forms for this purpose, as the Controller has done for other local compliance programs within the Controller's payment and audit jurisdiction.

An incorrect reduction claim will be needed since most of the adjustments are based on Controller audit policies, the propriety of which can only be determined by appeal to the Commission on State Mandates.

**FINDING 1 Overstated salaries and benefits <\$174,278>**

The District claimed \$363,936 in salaries and benefits during the audit period. The draft audit found that \$189,658 is allowable and \$174,278 is unallowable, because the District claimed "unsupported and ineligible costs."

**A. COMPONENT G3-COST OF NEGOTIATIONS <\$154,129>**

The District claimed \$313,926 in salaries and benefits for this component during the audit period. The draft audit found that \$159,797 is allowable and \$154,129 is unallowable, because the District claimed "unsupported and ineligible costs."

**Ineligible Costs <\$37,458>**

**1. Professional Development Advisory Board Meetings <\$175>**

**FY 2008-09 <\$175>**

The audit report disallows the time spent participating in the Professional Development Advisory Board process because "time spent by employees attending professional development meetings [is] not identified in the parameters and guidelines as a reimbursable activity." See Finding 2 Overstated Contract Services, for the response to this issue.

**2. Planning/Preparation Time <\$37,283>**

**FY 2008-09 <\$9,065> FY 2009-10 <\$19,710> FY 2010-11 <\$8,508>**

The audit report states that the District did not support the staff time spent in some planning sessions. Most of the disallowed time is individual preparation time. The audit report states that the parameters and guidelines allow costs for negotiation planning sessions for employer representatives and employees, but that "this implies a session of more than one person." It appears that planning time was allowed if there was a sign-in sheet for a group meeting (e.g., at-table), but not for individual planning time.

The parameters and guidelines language reimburses staff time for "participating in negotiations." There are no conditions or limitations stated on the nature of the reimbursable staff time, that is, individual preparation time is not excluded in the parameters and guidelines. There is no stated or reasonable inference from, the parameters and guidelines language that planning is only a group activity. Individual or group planning is an anticipated rational and reasonably necessary part of any process in the usual course of business and the Controller has no basis to exclude it from this component or any other component.

Unsupported Costs <\$116,671>

3. At-Table Negotiations <\$13,262>

FY 2008-09 <\$7,822> FY 2009-10 <\$3,364> FY 2010-11 <\$2,076 >

The audit report states that the District did not support costs claimed for employees attending at-table negotiations sessions because some of the employee names did not appear on at-table session sign-in sheets. The staff time claimed is generally derived from meeting sign-in sheets, meeting minutes or agendas, individual time sheets, and extracts from the attorney billings. The audit report does not provide sufficient information to determine what staff time was not supported by other sources or what other support would be required.

4. Planning Time? <\$103,122>

FY 2008-09 <\$57,264> FY 2009-10 <\$26,241> FY 2010-11 <\$19,617>

The audit report states that the District did not provide any documentation supporting costs claimed for employees involved in negotiation. If these disallowances pertain to individual preparation time, that eligibility issue has been discussed in item 2 above. Note that some staff preparation times are reported in bulk amounts, e.g., 40 hours, on one at-table session sign in sheet, but are necessarily entered into the claim preparation software as five 8-hours days. This is particularly true for those persons who spend several days between sessions updating budget and salary cost information to be used for the session where the preparation time is noted on the sign-in sheet. The sign-in sheets also use "ditto marks" to indicate the same time for several persons attending which may have been construed by the auditor as a non-response. The staff time claimed is generally derived from meeting sign-in sheets, meeting minutes or agendas, individual time sheets, and extracts from the attorney billings. The audit report does not provide sufficient information to determine what staff time was not supported by other sources or what other support would be required.

5. Duplicate time <\$287>

FY 2008-09 <\$287>

The audit report states that the District claimed the costs of the same employee twice for at-table negotiations, totaling \$287 for FY 2008-09. The District did not review this adjustment because it is immaterial.

6. Wrong Fiscal Year \$0

FY 2008-09 \$237 FY 2009-10 <\$237>

The District incorrectly claimed FY 2008-09 at-table negotiation costs totaling \$237 in FY 2009-10. The auditor moved the costs to the correct fiscal year. The District does not dispute this adjustment.

B. COMPONENT G6-CONTRACT ADMINISTRATION <\$20,149>

The District claimed \$49,412 in salaries and benefits for the Contract Administration cost component. The draft audit report found that \$29,263 is allowable and \$20,149 is unallowable because the District claimed "ineligible and unsupported costs." As a general note, it appears the audit disallows time claimed for principals and vice principals to participate in the contract administration committee process. These persons are District administrators and should be reimbursed for these activities.

Ineligible Costs <\$13,933>

1. Professional Development Meetings <\$8,937>

FY 2008-09 <\$2,547> FY 2009-10 <\$3,584> FY 2010-11 <\$2,806>

The audit report disallows the time spent participating in the Professional Development Advisory Board meetings because "[t]ime spent by employees attending professional development meetings [is] not identified in the parameters and guidelines as a reimbursable activity." The audit report incorrectly characterizes the claimed time as "attending, professional development and informational programs (i.e., classes, conferences, seminars, workshops)." The Professional Development Advisory Board was established by an MOU dated September 1, 2006 between the District and the Poway Federation of Teachers (a copy of which was provided at the entrance conference in the FY 2008-09 annual claim materials). The Board includes four union members and three District administrators. The Board meetings are not classes, conferences, seminars, or workshops. The Board is the steering committee for the District's professional development program for teachers which is an appropriate subject within the Rodda Act for collective bargaining. These characteristics make this Board similar to the contract administration committees (e.g., insurance committee) for which the time claimed was allowed by the Controller. This staff time is reimbursable.

2. Layoff Training <\$4,996>

FY 2008-09 <\$3,257> FY 2009-10 <\$1,148> FY 2010-11 <\$591>

The audit report states that the District claimed ineligible costs for administrator time spent attending layoffs and/or staff reduction workshops, because this is

"[t]ime spent related to the implementation of layoffs [which] is not identified in the parameters and guidelines as a reimbursable activity." The parameters and guidelines document does not enumerate the *subject matter* of the collective bargaining; instead, it enumerates the *process*, e.g., unit determination, negotiations, and contract administration. The subject matter is controlled by the Rodda Act. The layoff process is a proper subject of the Rodda Act, and no further enumeration in the parameters and guidelines is necessary.

The audit report states, without a cite to the parameters and guidelines, that costs related to layoffs are only reimbursable in reference to "negotiating terms and conditions of a proposed contract." To the contrary, the parameters and guidelines, at G. 6, specifically provide for training on contract interpretation:

6. Contract administration and adjudication of contract disputes either by arbitration or litigation. Reimbursable functions include grievances and administration and enforcement of the contract.
  - c. 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. Similarly, purchases of books and subscriptions for personal development and information purposes are not reimbursable. Salaries and benefits must be shown as described in Item H3. Emphasis added.

The majority of the staff time at issue here is for a one-hour contract interpretation session on January 15, 2009. Only District administrators and principals attended. This is the exact type of training anticipated by the parameters and guidelines. The staff time for contract interpretation and training for interpretation should be allowed.

Unsupported Costs <\$6,303>

3. Contract Training and Contract Disputes <\$4,728>

FY 2008-09 <\$4,409> FY 2009-10 <\$319> FY 2010-11 \$0

The audit report states that the District did not provide any documentation supporting costs claimed for employees involved in contract administration activities, specifically contract training sessions and adjudicating contract

disputes. The audit report does not provide sufficient information to determine what staff time was not supported and what support would be required.

4. Contract Administration <\$1,249>

FY 2008-09 <\$788> FY 2009-10 <\$461> FY 2010-11 \$0

The audit report states that the District did not support costs claimed for employees participating in contract administration activities, because the sign-in sheets did not show that these employees attended the meetings. The audit report does not provide sufficient information to determine what staff time was not supported and what support would be required.

5. Preparation Time <\$326>

FY 2008-09 <\$235> FY 2009-10 \$0 FY 2010-11 <\$91>

The audit report states that the District claimed ineligible costs for negotiation-related preparation time because it was not in the context of a "negotiation planning session." If these disallowances pertain to individual preparation time, that eligibility issue has been discussed in item A 2 above. The District cannot identify from the audit report the staff time at issue, so the issue is still in dispute.

Understated Costs \$87

6. No Activity Stated \$87

FY 2008-09 \$2 FY 2009-10 \$0 FY 2010-11 \$85

The audit report states that the District understated staff time. The District does not dispute this adjustment.

**FINDING 2 Overstated contract services <\$83,086>**

The District claimed \$171,815 in contract services during the audit period. The audit report found that \$88,729 is allowable and \$83,086 is unallowable, because the District claimed "unsupported and ineligible costs."

A. COMPONENT G3-COST OF NEGOTIATIONS <\$37,731>

The District claimed \$88,408 in contract services for the Cost of Negotiations cost component. The audit report found that \$50,677 is allowable and \$37,731 is unallowable because the District claimed "unsupported and ineligible costs."

Ineligible Costs <\$20,833>

1. Consultant <\$20,833>

FY 2008-09 <\$9,167> FY 2009-10 <\$5,833> FY 2010-11 <\$5,833>

The District contracts, in a single document, with School Services of California for consulting services related to legislative advocacy and collective bargaining activities, generally in the amount \$1,666.67 per month, except where consultant travel costs were reimbursed. The audit disallowed half of the claimed costs. The District agrees that "legislative advocacy" is not a reimbursable activity. However, the District is unable to corroborate with written documentation other than the vendor billings the percentage of the monthly billings related to reimbursable collective bargaining activities. The adjustment disallows half of the cost and seems to be a reasonable solution to the documentation problem based on an appraisal of the services provided.

Unsupported Costs <\$16,898>

2. No Activity Stated <\$16,898>

FY 2008-09 <\$1,898> FY 2009-10 <\$6,667> FY 2010-11 <\$8,333>

The audit report states that the District did not provide any documentation supporting these costs. There is insufficient information in the audit report to ascertain the contract costs in question, so the matter is still in dispute.

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B. COMPONENT G6-CONTRACT ADMINISTRATION <\$45,355>

Ineligible Costs <\$45,355>

3. Layoff Implementation <\$45,355>

FY 2008-09 <\$29,999> FY 2009-10 <\$10,091> FY 2010-11 <\$5,265>

The audit report states that the District claimed ineligible contractor costs for in the implementation of the staff reductions which is not identified in the parameters and guidelines as a reimbursable activity. The audit report states that costs related to layoffs are only reimbursable in reference to negotiating terms and conditions of a proposed contract. To the contrary, the parameters and guidelines, at G.6., state:

- 6. Contract administration and adjudication of contract disputes either by arbitration or litigation. Reimbursable functions include grievances and administration and enforcement of the contract. Emphasis added.

The time reported is principally for Human Resources administrators and staff to enforce the negotiated layoff procedure and should be allowed.

**FINDING 3 Unreported Winton Act base-year direct costs <\$34,035>**

The District did not report any Winton Act direct costs on its annual claims for the audit period because it had no record of the Winton Act costs. The District agrees that the FY 1974-75 Winton Act base-year costs, after application of a price-inflator each year, are properly offset against the claim year Rodda Act costs for matched components G1 through G3. The Controller obtained from its own records archive Winton Act costs of \$2,523 from the FY 1995-96 annual claim and performed the necessary calculations resulting in a reduction of Rodda Act costs by \$34,035 for the audit period. A copy of the FY 1995-96 annual claim is not included with the audit report so the District cannot ascertain either the amount or whether the Winton Act costs were matched to the appropriate Rodda Act components.

**FINDING 4 Overstated indirect costs <\$11,877>**

The District claimed \$22,567 in indirect costs for the audit period. The audit report found that \$10,690 is allowable and \$11,877 is unallowable. The disallowed costs result principally from the reduction of costs in Findings 1 and 2 after the indirect cost rate is applied to the remaining costs. This is mitigated by a reporting error for the FY 2009-10 indirect cost rate which the Controller increased to the CDE approved rate of 4.68% from \$4.23%. The District agrees with the correction of the indirect cost rate.

**Waiver of the Exit Conference**

The District found it necessary to waive the exit conference. The auditor was unable to provide more than one-week notice which was not sufficient for the District to prepare for the meeting and include at the meeting the mandate claims consultant who prepared the claims. It appears that the short notice is a result of the soon to expire two-year statute of limitations to complete the audit. While the District was provided the work papers which detail the individual amounts disallowed, the amounts are not explained in the audit report by reason for disallowance and the summarized dollar amounts not always reconcilable to the source schedule. The exit conference could have provided clarification sufficient to make the response to the draft audit report more complete. Inasmuch as the conduct of the audit over time was in the control of your staff, the detrimental effect of this fast dash to finish line is their responsibility. The exit conference was waived because the District could not insist on more time and did not want to be the source of any delay in this process.

Mr. Jim Spano

February 6, 2015

**Public Records Request**

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program. Government Code Section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

Sincerely,



Malliga Tholandi  
Associate Superintendent  
Poway Unified School District

**State Controller's Office  
Division of Audits  
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