



JOHN CHIANG
California State Controller

June 13, 2014

Walker Williams, Superintendent
Palos Verdes Peninsula Unified
School District
375 Via Almar
Palos Verdes Estates, CA 90274

Dear Mr. Williams:

The State Controller's Office reviewed the costs claimed by Palos Verdes Peninsula 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, 2008, through June 30, 2012. We conducted our review under the authority of Government Code sections 12410, 17558.5, and 17561. Our review was limited to ensuring that direct and indirect costs were properly reported in accordance with program requirements.

The district claimed \$49,536 for the mandated program. Our review found that \$43,476 is allowable and \$6,060 is unallowable. The costs are unallowable because the district did not offset its Winton Act base-year costs against its current-year Rodda Act direct costs for fiscal year (FY) 2008-09 through FY 2011-12, and did not claim indirect costs on contract services for FY 2008-09 and FY 2009-10, as described in the attached Summary of Program Costs and the Finding and Recommendation.

For the fiscal year (FY) 2008-09 claim, the State paid the district \$1,497. Our review found that \$10,599 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$9,102, contingent upon available appropriations.

For the FY 2009-10 claim, the State paid the district \$1,427. Our review found that \$16,805 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$15,378, contingent upon available appropriations.

For the FY 2010-11 claim, the State made no payment to the district. Our review found that \$15,021 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2011-12 claim, the State made no payment to the district. Our review found that \$1,051 is allowable. The State will pay that amount, contingent upon available appropriations.

We informed Amber Borth, Director of Fiscal Services, of the review adjustment via email on June 3, 2014. We did not receive a response from the district.

If you disagree with the review findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at 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/sk

Attachments

RE: S14-MCC-942

cc: Ambur Borth, Director of Fiscal Services
Palos Verdes Peninsula Unified School District
Marlene Dunn, Director
Business Advisory Services
Los Angeles County Office of Education
Peter Foggiato, Director
School Fiscal Services Division
California Department of Education
Carol Bingham, Senior Fiscal Policy Advisor
Government Affairs Division
California Department of Education
Thomas Todd, Assistant Program Budget Manager
Education Systems Unit, California Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

Attachment 1— Summary of Program Costs July 1, 2008, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 11,173	\$ 11,173	\$ —	
Contract services	473	473	—	
Subtotal	11,646	11,646	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(1,448)	(1,448)	Finding 1
Increased direct costs, G1 through G3	11,646	10,198	(1,448)	
Total increased direct costs, G1 through G7	11,646	10,198	(1,448)	
Indirect costs	439	401	(38)	Finding 2
Total program costs	<u>\$ 12,085</u>	10,599	<u>\$ (1,486)</u>	
Less amount paid by the State		(1,497)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 9,102</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 15,108	\$ 15,108	\$ —	
Contract services	2,565	2,565	—	
Subtotal	17,673	17,673	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(1,464)	(1,464)	Finding 1
Increased direct costs, G1 through G3	17,673	16,209	(1,464)	
Total increased direct costs, G1 through G7	17,673	16,209	(1,464)	
Indirect costs	556	596	40	Finding 2
Total program costs	<u>\$ 18,229</u>	16,805	<u>\$ (1,424)</u>	
Less amount paid by the State		(1,427)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 15,378</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 15,219	\$ 15,219	\$ —	
Contract services	844	844	—	
Subtotal	16,063	16,063	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(1,499)	(1,499)	Finding 1

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable Per Review	Review Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011 (continued)</u>				
Increased direct costs, G1 through G3	16,063	14,564	(1,499)	
Total increased direct costs, G1 through G7	16,063	14,564	(1,499)	
Indirect costs	504	457	(47)	Finding 2
Total program costs	<u>\$ 16,567</u>	15,021	<u>\$ (1,546)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 15,021</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Component activities G1 through G3:				
Contract services	\$ 2,565	\$ 2,565	\$ —	
Subtotal	2,565	2,565	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(1,550)	(1,550)	Finding 1
Increased direct costs, G1 through G3	2,565	1,015	(1,550)	
Total increased direct costs, G1 through G7	2,565	1,015	(1,550)	
Indirect costs	90	36	(54)	Finding 2
Total program costs	<u>\$ 2,655</u>	1,051	<u>\$ (1,604)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,051</u>		
<u>Summary: July 1, 2008, through June 30, 2012</u>				
Total increased direct costs, G1 through G7	\$ 47,947	\$ 41,986	\$ (5,961)	
Indirect costs	1,589	1,490	(99)	
Total program costs	<u>\$ 49,536</u>	43,476	<u>\$ (6,060)</u>	
Less amount paid by the State		(2,924)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 40,552</u>		

¹ See Attachment 2, Findings and Recommendations.

Attachment 2— Findings and Recommendations July 1, 2008, through June 30, 2012

BACKGROUND—

The current findings are the result of our review of the mandated cost claims filed for the legislatively mandated Collective Bargaining Program for the period of July 1, 2008, through June 30, 2012.

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 related to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [CSM]) 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; this section requires school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding. On August 20, 1998, the CSM determined that this legislation also imposed a state mandate upon school districts reimbursable under Government Code section 17561.

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 [FY] 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-Cost of negotiations
- G4-Impasse proceedings
- G5-Collective bargaining agreement disclosure
- G6-Contract administration
- G7-Unfair labor practice charges

The program's parameters and guidelines establish the state mandate and define the reimbursement criteria. The CSM 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 State Controller’s Office issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

**FINDING 1—
Unreported Winton Act
base-year direct costs,
and related indirect
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 \$5,961 for the review period.

The following table summarizes 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	2011-12	
Winton Act base-year costs, FY 1995-96	\$ (327)	\$ (327)	\$ (327)	\$ (327)	
Implicit price deflator (IPD)	× 4.429	× 4.478	× 4.583	× 4.738	
Winton Act base-year costs adjusted by the IPD	(1,448)	(1,464)	(1,499)	(1,550)	(5,961)
Less reported Winton Act base-year costs	—	—	—	—	—
Review Adjustment	<u>(1,448)</u>	<u>(1,464)</u>	<u>(1,499)</u>	<u>(1,550)</u>	<u>(5,961)</u>

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

- a. For component activities G1, G2, and G3:
 - 1. 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.

FINDING 2—**Misstated indirect costs**

The district overstated indirect costs by \$99 for the review period. The misstatement occurred because the district:

- Did not claim indirect costs on contract services for FY 2008-09 and FY 2009-10 totaling \$113; and
- Did not report any Winton Act direct costs on its mandated cost claims for FY 2008-09 through FY 2010-11, resulting in an overstatement of \$212.

The unclaimed indirect costs on contract services occurred because the district followed the claiming instructions identified on Form 1 for the Collective Bargaining Program, which inadvertently excluded contract services from the calculation of indirect costs. The Collective Bargaining Program claiming instructions have since been corrected.

The parameters and guidelines allow indirect cost rates provisionally approved by the California Department of Education (CDE). The CDE indirect cost rates apply to total direct costs (salaries and benefits, materials and supplies, and contract services).

The following table summarizes the calculation of unclaimed indirect costs on contract services for the review period:

Description	Fiscal Year				Total
	2008-09	2009-10	2010-11	2011-12	
Allowable increased direct costs	\$ 10,198	\$ 16,209	\$ 14,564	\$ 1,015	
Claimed indirect cost rate	3.93%	3.68%	3.14%	3.50%	
Allowable indirect costs	\$ 401	\$ 596	\$ 457	\$ 36	\$ 1,490
Less: claimed indirect costs	439	556	504	90	1,589
Review Adjustment	\$ (38)	\$ 40	\$ (47)	\$ (54)	\$ (99)

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 follow the updated guidance in the claiming instructions for calculating indirect costs on contract services.