



JOHN CHIANG
California State Controller

June 10, 2014

Richard Carranza, Superintendent
San Francisco Unified School District
555 Franklin Street, 3rd Floor
San Francisco, CA 94102

Dear Mr. Carranza:

The State Controller's Office reviewed the costs claimed by San Francisco 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, 2007, through June 30, 2011. 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 \$634,918 for the mandated program. Our review found that \$410,878 is allowable and \$224,040 is unallowable. The costs are unallowable because the district understated its Winton Act base-year direct costs for the review period and did not claim indirect costs on contract services for fiscal year (FY) 2007-08 through FY 2009-10, as described in the attached Summary of Program Costs and the Findings and Recommendations. The State paid the district \$38,113. The State will pay allowable costs claimed that exceed the amount paid, totaling \$372,765, contingent upon available appropriations.

We informed Marcie H. James, Director, Medi-Cal Revenue Unit, of the review adjustment via email on June 6, 2014. The district agreed with the review adjustment.

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/kw

Attachments

RE: S14-MCC-953

cc: Marcie H. James, Director
Medi-Cal Revenue Unit
San Francisco Unified School District
Michael Byrne, Principal Program Budget Analyst
Mandates Unit, California Department of Finance
Joseph Grazioli, Chief Financial Officer
San Francisco Unified School District
Peter Foggiano, 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, 2007, through June 30, 2011

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 33,216	\$ 33,216	\$ —	
Contract services	2,130	2,130	—	
Subtotal	35,346	35,346	—	
Less base-year direct costs adjusted by the implicit price deflator	(47,189)	(180,868)	(133,679)	Finding 1
Subtotal	(11,843)	(145,522)	(133,679)	
Adjustment to eliminate negative balance ²		145,522	145,522	
Increased direct costs, G1 through G3	(11,843)	—	11,843	
Component activities G4 through G7:				
Salaries and benefits	60,856	60,856	—	
Materials and supplies	709	709	—	
Contract services	86,593	86,593	—	
Increased direct costs, G4 through G7	148,158	148,158	—	
Total increased direct costs, G1 through G7	136,316	148,158	11,843	
Indirect costs	2,246	6,993	4,747	Finding 2
Subtotal	138,562	155,151	16,590	
Less allowable costs that exceed costs claimed ³	—	(16,590)	(16,590)	
Total program costs	<u>\$ 138,562</u>	138,562	<u>\$ —</u>	
Less amount paid by the State		(3)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 138,559</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 101,311	\$ 101,311	\$ —	
Materials and supplies	5,105	5,105	—	
Contract services	30,699	30,699	—	
Subtotal	137,115	137,115	—	
Less base-year direct costs adjusted by the implicit price deflator	(48,436)	(185,646)	(137,210)	Finding 1
Subtotal	88,679	(48,531)	(137,210)	
Adjustment to eliminate negative balance ²		48,531	48,531	
Increased direct costs, G1 through G3	88,679	—	(88,679)	
Component activities G4 through G7:				
Salaries and benefits	47,278	47,278	—	
Materials and supplies	798	798	—	
Contract services	59,248	59,248	—	
Increased direct costs, G4 through G7	107,324	107,324	—	
Total increased direct costs, G1 through G7	196,002	107,324	(88,679)	
Indirect costs	1,888	1,910	22	Finding 2
Total program costs	<u>\$ 197,890</u>	109,233	<u>\$ (88,657)</u>	
Less amount paid by the State		(24,505)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 84,728</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 112,639	\$ 112,639	\$ —	
Contract services	28,559	28,559	—	
Subtotal	141,198	141,198	—	
Less base-year direct costs adjusted by the implicit price deflator	(48,971)	(187,700)	(138,729)	Finding 1
Subtotal	92,227	(46,502)	(138,729)	
Adjustment to eliminate negative balance ²	—	46,502	46,502	
Increased direct costs, G1 through G3	92,227	—	(92,227)	
Component activities G4 through G7:				
Salaries and benefits	58,800	58,800	—	
Contract services	18,248	18,248	—	
Increased direct costs, G4 through G7	77,048	77,048	—	
Total increased direct costs, G1 through G7	169,273	77,048	(92,226)	
Indirect costs	4,544	2,858	(1,685)	Finding 2
Total program costs	<u>\$ 173,817</u>	79,905	<u>\$ (93,911)</u>	
Less amount paid by the State		(13,605)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 66,300</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 78,453	\$ 78,453	\$ —	
Materials and supplies	8,456	8,456	—	
Contract services	2,700	2,700	—	
Subtotal	89,609	89,609	—	
Less base-year direct costs adjusted by the implicit price deflator	(50,120)	(192,101)	(141,981)	Finding 1
Subtotal	39,489	(102,492)	(141,981)	
Adjustment to eliminate negative balance ²	—	102,492	102,492	
Increased direct costs, G1 through G3	39,489	—	(39,489)	
Component activities G4 through G7:				
Salaries and benefits	49,045	49,045	—	
Contract services	30,157	30,157	—	
Increased direct costs, G4 through G7	79,202	79,202	—	
Total increased direct costs, G1 through G7	118,691	79,202	(39,489)	
Indirect costs	5,958	3,976	(1,982)	Finding 2
Total program costs	<u>\$ 124,649</u>	83,178	<u>\$ (41,471)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 83,178</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>Summary: July 1, 2007, through June 30, 2011</u>				
Total increased direct costs, G1 through G7	\$ 620,282	\$ 411,731	\$ (208,552)	
Indirect costs	14,636	15,737	1,102	
Less allowable costs that exceed costs claimed		(16,590)	(16,590)	
Total program costs	<u>\$ 634,918</u>	410,878	<u>\$ (224,040)</u>	
Less amount paid by the State		(38,113)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 372,765</u>		

¹ See Attachment 2, Finding and Recommendation.

² The Winton Act base-year direct costs (components G1 through G3), as adjusted by the IPD, exceeded the Rodda Act current-year direct costs for components G1 through G3 by \$145,522 for fiscal year (FY) 2007-08, \$48,531 for FY 2008-09, \$46,502 for FY 2009-10, and \$102,492 for FY 2010-11. We adjusted costs for components G1 through G3 to eliminate negative balances.

³ Government Code section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2007-08.

Attachment 2— Findings and Recommendations July 1, 2007, through June 30, 2011

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, 2007, through June 30, 2011.

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 Rodda 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 (SCO) issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

**FINDING 1—
Understated Winton Act
base-year direct costs**

The district understated its Winton Act FY 1995-96 base-year direct costs (components G1 through G3) on its mandated cost claims for the review period. Specifically, the district understated the Winton Act base-year direct costs, thus overstating claimed direct costs by \$551,599. The district reported a base-year direct cost of \$10,936, rather than the \$41,916 it reported on its FY 1995-96 filed claim.

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

Winton Act Base Year Costs	Fiscal Year				Total
	2007-08	2008-09	2009-10	2010-11	
Winton Act base-year direct costs, FY 1995-96	\$ (41,916)	\$ (41,916)	\$ (41,916)	\$ (41,916)	
Implicit Price Deflator (IPD)	× 4.315	× 4.429	× 4.478	× 4.583	
Winton Act base-year direct costs adjusted by the IPD	(180,868)	(185,646)	(187,700)	(192,101)	\$ (746,315)
Less reported Winton Act base-year direct costs	(47,189)	(48,436)	(48,971)	(50,120)	(194,716)
Review adjustment	\$ (133,679)	\$ (137,210)	\$ (138,729)	\$ (141,981)	\$ (551,599)

The 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.

We obtained the Winton Act base-year direct cost 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 direct 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 direct costs claimed.

**FINDING 2—
Misstated indirect costs**

The district overstated indirect costs by \$1,102 for the review period. The overstatement occurred because the district did not:

- Claim indirect costs on contract services for FY 2007-08 through FY 2009-10, totaling \$7,525; or
- Apply the correct Winton Act direct costs on its mandated cost claims for the review period, resulting in an overstatement of indirect costs totaling \$6,423.

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

We determined allowable indirect costs by multiplying allowable contract services by the indirect cost rates claimed by the district, which agreed to the indirect cost rates approved by the California Department of Education (CDE).

The parameters and guidelines allow indirect cost rates provisionally approved by the 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
	2007-08	2008-09	2009-10	2010-11	
Allowable increased direct costs	\$ 148,159	\$ 107,323	\$ 77,047	\$ 79,202	
Claimed indirect cost rate	4.72%	1.78%	3.71%	5.02%	
Allowable indirect costs	6,993	1,910	2,858	3,976	\$ 15,737
Less: claimed indirect costs	2,246	1,888	4,544	5,958	14,636
Review adjustment	\$ 4,747	\$ 22	\$ (1,686)	\$ (1,982)	\$ 1,102

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.