



JOHN CHIANG
California State Controller

November 7, 2013

George J. Giokaris, Ed.D., Superintendent
Fullerton Joint Union High School District
1051 W. Bastanchury Road
Fullerton, CA 92833

Dear Dr. Giokaris:

The State Controller's Office reviewed the costs claimed by Fullerton Joint Union High 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 \$339,171 for the mandated program. Our review found that \$278,191 is allowable (\$288,191 less a \$10,000 penalty for filing a late claim) and \$60,980 is unallowable. The costs are unallowable because the district did not report any Winton Act base-year costs and overstated indirect costs, as described in the attached Summary of Program Costs and the Findings and Recommendations. The State paid the district \$3,579. The State will pay allowable costs claimed that exceed the amount paid, totaling \$274,612, contingent upon available appropriations.

We informed Terry Kent, Director of Business Services, of the review adjustment via email on October 21, 2013. 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/kw

Attachments

RE: S14-MCC-917

cc: David Bennett, Director of Business Services
Fullerton Joint Union High School District
Terry Kent, Director of Business Services
Fullerton Joint Union High School District
Al Mijares, Ph.D., County Superintendent of Schools
Orange County Department of Education
Scott Hannan, Director, School Fiscal Services Division
California Department of Education
Carol Bingham, Director, Fiscal Policy 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	\$ 69,539	\$ 69,539	\$ —	
Contract services	742	742	—	
Subtotal	70,281	70,281	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(13,504)	(13,504)	Finding 1
Increased direct costs, G1 through G3	70,281	56,777	(13,504)	
Component activities G4 through G7:				
Salaries and benefits	33,188	33,188	—	
Contract services	6,359	6,359	—	
Increased direct costs, G4 through G7	39,547	39,547	—	
Total increased direct costs, G1 through G7	109,828	96,324	(13,504)	
Indirect costs	6,392	5,606	(786)	Finding 1
Subtotal	116,220	101,930	(14,290)	
Less late filing penalty ²	—	(10,000)	(10,000)	
Total program costs	<u>\$ 116,220</u>	91,930	<u>\$ (24,290)</u>	
Less amount paid by the State		(1,663)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 90,267</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Contract services	\$ 6,331	\$ 6,331	\$ —	
Subtotal	6,331	6,331	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(13,653)	(13,653)	Finding 1
Subtotal	6,331	(7,322)	(13,653)	
Adjustment to eliminate negative balance	—	7,322	7,322	
Increased direct costs, G1 through G3	6,331	—	(6,331)	
Component activities G4 through G7:				
Contract services	16,795	16,795	—	
Increased direct costs, G4 through G7	16,795	16,795	—	
Total increased direct costs, G1 through G7	23,126	16,795	(6,331)	
Indirect costs	1,346	887	(459)	Findings 1, 2
Total program costs	<u>\$ 24,472</u>	17,682	<u>\$ (6,790)</u>	
Less amount paid by the State		(1,916)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 15,766</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 73,702	\$ 73,702	\$ —	
Contract services	3,443	3,443	—	
Subtotal	77,145	77,145	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(13,974)	(13,974)	Finding 1
Increased direct costs, G1 through G3	77,145	63,171	(13,974)	
Component activities G4 through G7:				
Salaries and benefits	5,807	5,807	—	
Contract services	26,177	26,177	—	
Increased direct costs, G4 through G7	31,984	31,984	—	
Total increased direct costs, G1 through G7	109,129	95,155	(13,974)	
Indirect costs	5,544	4,834	(710)	Finding 1
Total program costs	<u>\$ 114,673</u>	99,989	<u>\$ (14,684)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 99,989</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 68,864	\$ 68,864	\$ —	
Contract services	1,552	1,552	—	
Subtotal	70,416	70,416	—	
Less base-year direct costs adjusted by the implicit price deflator	—	(14,446)	(14,446)	Finding 1
Increased direct costs, G1 through G3	70,416	55,970	(14,446)	
Component activities G4 through G7:				
Salaries and benefits	4,748	4,748	—	
Contract services	4,401	4,401	—	
Increased direct costs, G4 through G7	9,149	9,149	—	
Total increased direct costs, G1 through G7	79,565	65,119	(14,446)	
Indirect costs	4,241	3,471	(770)	Finding 1
Total program costs	<u>\$ 83,806</u>	68,590	<u>\$ (15,216)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 68,590</u>		

Attachment 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Review	Review Adjustment	Reference ¹
<u>Summary: July 1, 2008, through June 30, 2012</u>				
Total increased direct costs, G1 through G7	\$ 321,648	\$ 273,393	\$ (48,255)	
Indirect costs	<u>17,523</u>	<u>14,798</u>	<u>(2,725)</u>	
Total direct and indirect costs	339,171	288,191	(50,980)	
Less late filing penalty	<u>—</u>	<u>(10,000)</u>	<u>(10,000)</u>	
Total program costs	<u>\$ 339,171</u>	278,191	<u>\$ (60,980)</u>	
Less amount paid by the State		<u>(3,579)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 274,612</u>		

¹ See Attachment 2, Findings and Recommendations.

² The district filed its FY 2008-09 annual reimbursement claim after the due date specified in Government Code section 17560. Pursuant to Government Code section 17568, the State assessed a late filing penalty equal to 10% of allowable costs, not to exceed \$10,000.

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, which 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 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

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—
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 fiscal year (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 \$55,577 for the review period. Unallowable related indirect costs total \$2,635.

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

	Fiscal Year				Total
	2008-09	2009-10	2010-11	2011-12	
Winton Act base-year costs, FY 1995-96	\$ (3,049)	\$ (3,049)	\$ (3,049)	\$ (3,049)	
Implicit price deflator (IPD)	x 4.429	x 4.478	x 4.583	x 4.738	
Winton Act base-year costs adjusted by the IPD	(13,504)	(13,653)	(13,974)	(14,446)	(55,577)
Less reported Winton Act base-year costs	-	-	-	-	-
Unreported Winton Act base-year costs adjusted by the IPD	(13,504)	(13,653)	(13,974)	(14,446)	(55,577)
Related indirect cost adjustment	(786)	(369)	(710)	(770)	(2,635)
Review adjustment	\$ (14,290)	\$ (14,022)	\$ (14,684)	\$ (15,216)	\$ (58,212)

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

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 direct costs claimed.

**FINDING 2—
Overstated indirect
costs**

The district overstated the FY 2009-10 indirect cost rate, resulting in a \$90 overstatement of indirect costs. The parameters and guidelines allow indirect cost rates provisionally approved by the California Department of Education (CDE). The district mistakenly used the FY 2008-09 CDE approved indirect cost rate of 5.82% instead of the FY 2009-10 CDE approved indirect cost rate of 5.28%.

The following table summarizes the misstated indirect cost rate difference and the adjustment calculation:

	Fiscal Year <u>2009-10</u>
Allowable indirect cost rate	5.28%
Claimed indirect cost rate	<u>5.82%</u>
Difference	-0.54%
Increased direct costs, G1 through G7	<u>\$ 16,795</u>
Review adjustment	<u>\$ (90)</u>

Recommendation

We recommend that the district use the indirect cost rate provisionally approved by the CDE when calculating indirect costs.