

# **CABRILLO COMMUNITY COLLEGE DISTRICT**

Audit Report

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

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

*July 1, 2005, through June 30, 2008;  
and July 1, 2010, through June 30, 2012*



**BETTY T. YEE**  
California State Controller

November 2015



**BETTY T. YEE**  
California State Controller

November 24, 2015

Donna Ziel, President  
Board of Trustees  
Cabrillo Community College District  
6500 Soquel Drive  
Aptos, CA 95003

Dear Ms. Ziel:

The State Controller's Office audited the costs claimed by the Cabrillo Community College 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, 2005, through June 30, 2008; and July 1, 2010, through June 30, 2012. We did not include the costs claimed for the period of July 1, 2008, through June 30, 2010, in the audit period because the statute of limitations to initiate the audit has since expired.

The district claimed \$626,065 for the mandated program. Our audit found that \$543,453 is allowable and \$82,612 is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported costs and misstated the indirect cost rates. The State paid the district \$171,613 from funds appropriated under Chapter 32, Statutes of 2014. Allowable costs claimed exceed the amount paid by \$371,840.

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

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD, CPA**  
Chief, Division of Audits

JVB/lis

Attachment

cc: Laurel Jones, Ed.D., Superintendent/President  
Cabrillo Community College District  
Victoria Lewis, Assistant Superintendent/Vice President of Administrative Services  
Cabrillo Community College District  
Graciano Mendoza, Director of Business Services  
Cabrillo Community College District  
Mario Rodriguez, Assistant Vice Chancellor  
College Finance and Facilities Planning  
California Community Colleges Chancellor's Office  
Christine Atalig, Specialist  
College Finance and Facilities Planning  
California Community Colleges Chancellor's Office  
Chris Ferguson, Principal Program Budget Analyst  
Education Systems Unit  
California Department of Finance  
Keith Nezaam, Staff Finance Budget Analyst  
Education Systems Unit  
California Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objectives, Scope, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>3</b>
<b>Views of Responsible Officials.....</b>	<b>3</b>
<b>Restricted Use .....</b>	<b>3</b>
<b>Schedule—Summary of Program Costs .....</b>	<b>4</b>
<b>Findings and Recommendations.....</b>	<b>7</b>

# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the Cabrillo Community College 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, 2005, through June 30, 2008; and July 1, 2010, through June 30, 2012. We did not include the costs claimed for the period of July 1, 2008, through June 30, 2010, in the audit period because the statute of limitations to initiate the audit has since expired.

The district claimed \$626,065 for the mandated program. Our audit found that \$543,453 is allowable and \$82,612 is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported costs and misstated the indirect cost rates. The State paid the district \$171,613 from funds appropriated under Chapter 32, Statutes of 2014. Allowable costs claimed exceed the amount paid by \$371,840.

## 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 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 [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. 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 Commission 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 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 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, 2005, through June 30, 2008; and July 1, 2010, through June 30, 2012.

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.
- Tested transactions selected through auditor professional judgement for the relevant cost elements.

**Conclusion**

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Schedule (Summary of Program Costs) and in the Findings and Recommendations section of this report.

For the audit period, the Cabrillo Community College District claimed \$626,065 for costs of the Collective Bargaining and Collective Bargaining Agreement Disclosure Program. Our audit found that \$543,453 is allowable and \$82,612 is unallowable.

For the fiscal year (FY) 2005-06 and FY 2006-07 claims, the State paid the district \$153,734 from funds appropriated under Chapter 32, Statutes of 2014. Our audit found that \$134,267 is allowable. The State will apply \$19,467 against any balances of unpaid mandated program claims due the district as of June 20, 2014.

For the FY 2007-08, FY 2010-11, and FY 2011-12 claims, the State paid the district \$17,879 from funds appropriated under Chapter 32, Statutes of 2014. Our audit found that \$409,186 is allowable. The State will pay allowable costs claimed the exceed the amount paid, totaling \$391,307, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft audit report on October 28, 2015. Graciano Mendoza, Director of Business Services, emailed us on November 6, 2015, stating that the district would not provide a response to the draft audit report findings.

**Restricted Use**

This report is solely for the information and use of the Cabrillo Community College District, the California Community Colleges Chancellor's Office, 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

November 24, 2015

## Schedule— Summary of Program Costs July 1, 2005, through June 30, 2008; and July 1, 2010, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 43,190	\$ 33,136	\$ (10,054)	Finding 1
Materials and supplies	38	38	-	
Contract services	1,580	1,580	-	
Subtotal	44,808	34,754	(10,054)	
Less base year direct costs adjusted by Implicit Price Deflator	-	-	-	
Increased direct costs, G1 through G3	44,808	34,754	(10,054)	
Component activities G4 through G7:				
Salaries and benefits	1,712	1,712	-	
Contract services	1,283	1,283	-	
Increased direct costs, G4 through G7	2,995	2,995	-	
Total increased direct costs, G1 through G7	47,803	37,749	(10,054)	
Indirect costs	3,146	2,643	(503)	Finding 3
Total program costs	<u>\$ 50,949</u>	40,392	<u>\$ (10,557)</u>	
Less amount paid by the State <sup>2</sup>		(50,949)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (10,557)</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 65,235	\$ 53,712	\$ (11,523)	Finding 1
Materials and supplies	319	319	-	
Contract services	4,894	4,894	-	
Subtotal	70,448	58,925	(11,523)	
Less base year direct costs adjusted by Implicit Price Deflator	-	-	-	
Increased direct costs, G1 through G3	70,448	58,925	(11,523)	
Component activities G4 through G7:				
Salaries and benefits	8,981	8,636	(345)	Finding 1
Contract services	2,255	2,255	-	
Increased direct costs, G4 through G7	11,236	10,891	(345)	
Total increased direct costs, G1 through G7	81,684	69,816	(11,868)	
Indirect costs	21,101	24,059	2,958	Finding 3
Total program costs	<u>\$ 102,785</u>	93,875	<u>\$ (8,910)</u>	
Less amount paid by the State <sup>2</sup>		(102,785)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (8,910)</u>		

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 61,027	\$ 42,970	\$ (18,057)	Finding 1
Materials and supplies	162	162	-	
Contract services	1,526	1,526	-	
Subtotal	62,715	44,658	(18,057)	
Less base year direct costs adjusted by Implicit Price Deflator	-	-	-	
Increased direct costs, G1 through G3	62,715	44,658	(18,057)	
Component activities G4 through G7:				
Salaries and benefits	5,159	4,270	(889)	Finding 1
Contract services	81	81	-	
Increased direct costs, G4 through G7	5,240	4,351	(889)	
Total increased direct costs, G1 through G7	67,955	49,009	(18,946)	
Indirect costs	17,841	17,913	72	Finding 3
Total program costs	<u>\$ 85,796</u>	66,922	<u>\$ (18,874)</u>	
Less amount paid by the State <sup>2</sup>		(17,879)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 49,043</u>		
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 87,882	\$ 67,596	\$ (20,286)	Finding 1
Contract services	15,850	15,850	-	
Subtotal	103,732	83,446	(20,286)	
Less base year direct costs adjusted by Implicit Price Deflator	-	-	-	
Increased direct costs, G1 through G3	103,732	83,446	(20,286)	
Component activities G4 through G7:				
Salaries and benefits	12,656	10,968	(1,688)	Finding 1
Contract services	12,179	12,179	-	
Increased direct costs, G4 through G7	24,835	23,147	(1,688)	
Total increased direct costs, G1 through G7	128,567	106,593	(21,974)	
Indirect costs	33,650	34,356	706	Finding 3
Total program costs	<u>\$ 162,217</u>	140,949	<u>\$ (21,268)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 140,949</u>		

## Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 121,176	\$ 99,231	\$ (21,945)	Finding 1
Contract services	47,210	38,783	(8,427)	Finding 2
Subtotal	168,386	138,014	(30,372)	
Less base year direct costs adjusted by Implicit Price Deflator	-	-	-	
Increased direct costs, G1 through G3	168,386	138,014	(30,372)	
Component activities G4 through G7:				
Salaries and benefits	11,422	8,865	(2,557)	Finding 1
Contract services	1,296	1,296	-	
Increased direct costs, G4 through G7	12,718	10,161	(2,557)	
Total increased direct costs, G1 through G7	181,104	148,175	(32,929)	
Indirect costs	43,214	53,140	9,926	Finding 3
Total program costs	<u>\$ 224,318</u>	201,315	<u>\$ (23,003)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 201,315</u>		
<u>Summary: July 1, 2005, through June 30, 2008:</u>				
<u>and July 1, 2010, through June 30, 2012</u>				
Total increased direct costs, G1 through G7	\$ 507,113	\$ 411,342	\$ (95,771)	
Indirect costs	118,952	132,111	13,159	
Total program costs	<u>\$ 626,065</u>	543,453	<u>\$ (82,612)</u>	
Less amount paid by the State		(171,613)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 371,840</u>		

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

<sup>2</sup> Payment from funds appropriated under Chapter 32, Statutes of 2014 (Senate Bill No. 858).

# Findings and Recommendations

**FINDING 1—  
Unallowable salaries  
and benefits**

The district claimed \$418,440 for salaries and benefits for the audit period. We found that \$331,096 is allowable and \$87,344 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs, overstated costs, misstated costs, could not support all of the costs claimed, and under-claimed costs.

The following table summarizes the claimed, allowable, and unallowable salaries and benefits for the audit period by fiscal year:

<u>Reimbursable Component</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2005-06</u>			
G3 - Cost of Negotiations	\$ 43,190	\$ 33,136	\$ (10,054)
G6 - Contract Administration	1,712	1,712	-
Total, FY 2005-06	<u>44,902</u>	<u>34,848</u>	<u>(10,054)</u>
<u>FY 2006-07</u>			
G3 - Cost of Negotiations	65,235	53,712	(11,523)
G6 - Contract Administration	8,981	8,636	(345)
Total, FY 2006-07	<u>74,216</u>	<u>62,348</u>	<u>(11,868)</u>
<u>FY 2007-08</u>			
G3 - Cost of Negotiations	61,027	42,970	(18,057)
G6 - Contract Administration	5,159	4,270	(889)
Total, FY 2007-08	<u>66,186</u>	<u>47,240</u>	<u>(18,946)</u>
<u>FY 2010-11</u>			
G3 - Cost of Negotiations	87,882	67,596	(20,286)
G6 - Contract Administration	12,656	10,968	(1,688)
Total, FY 2010-11	<u>100,538</u>	<u>78,564</u>	<u>(21,974)</u>
<u>FY 2011-12</u>			
G3 - Cost of Negotiations	121,176	99,231	(21,945)
G6 - Contract Administration	11,422	8,865	(2,557)
Total, FY 2011-12	<u>132,598</u>	<u>108,096</u>	<u>(24,502)</u>
<u>Recap: by Reimbursable Component</u>			
G3 - Cost of Negotiations	378,510	296,645	(81,865)
G6 - Contract Administration	39,930	34,451	(5,479)
Total Salaries and Benefits	<u>\$ 418,440</u>	<u>\$ 331,096</u>	<u>\$ (87,344)</u>

The program’s parameters and guidelines (section G. – Claim Components (Reimbursable Costs)) state:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. 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. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, training packets, and declarations...However, corroborating documents cannot be substituted for source documents.

The claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities identified below. Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate.

**Component G3 – Cost of Negotiations**

The district claimed \$378,510 for salaries and benefits for the Cost of Negotiations cost component. We found that \$296,645 is allowable and \$81,865 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs, overstated costs, misstated costs, could not support all of the costs claimed, and under-claimed costs.

The following table summarizes the audit adjustments for the Cost of Negotiations cost component by fiscal year:

	Fiscal Year					
	2005-06	2006-07	2007-08	2010-11	2011-12	Total
Ineligible costs	\$ (8,880)	\$(10,443)	\$(13,901)	\$ (9,887)	\$(18,684)	\$(61,795)
Overstated costs	(495)	(652)	(3,608)	(4,219)	(379)	(9,353)
Misstated costs	-	-	-	(7,893)	-	(7,893)
Unsupported costs	(679)	(809)	(548)	(576)	(3,155)	(5,767)
Unclaimed costs	-	381	-	2,289	273	2,943
<b>Audit Adjustment</b>	<b>\$(10,054)</b>	<b>\$(11,523)</b>	<b>\$(18,057)</b>	<b>\$(20,286)</b>	<b>\$(21,945)</b>	<b>\$(81,865)</b>

The parameters and guidelines (section G.3. – Claim Components (Reimbursable Costs)) state, in part:

Negotiations: Reimbursable functions include – receipt of exclusive representative’s initial contract proposal, holding of public hearings, providing a reasonable number of copies of the employer’s proposed contract to the public, development and presentation of the initial district contract proposal, negotiation of the contract, reproduction and distribution of the final contract agreement.

- a. Show the cost of salaries and benefits for employer representatives participating in negotiations. Contracted services will be reimbursed. Costs for maximum of five public school employer representatives per unit, per negotiation session will be reimbursed. Salaries and benefits must be shown as described on Page 7, Item H3.
- b. Show the costs of salaries and benefits for employer representatives and employees participating in negotiation planning sessions. Contract services for employer representatives will be reimbursed. Salaries and benefits must be show as described in Item H3.

*Ineligible costs*

The district claimed \$61,795 in ineligible costs. To support the costs claimed, the district provided sign-in sheets for at-table negotiations and negotiation planning sessions; to support the hours claimed for the various district employees, the district provided mandate reimbursement time logs. After reviewing the supporting documentation provided, we found that the district claimed reimbursement for the following ineligible activities:

- Individual negotiation preparation time – The parameters and guidelines allow reimbursement for negotiation planning sessions, which are meetings of more than one person for the purpose of planning and strategizing for an upcoming negotiation session. However, the district claimed reimbursement for individual preparation activities, which are not allowable activities.
- Board meeting preparation – Board closed sessions are allowable; however, preparation for the board closed session is not. Additionally, only the portion of the actual board closed session that is specific to negotiation planning is allowable. Therefore, using the meeting minutes generated from the district’s website, we determined the actual time of the board closed session and allowed only that exact length of time devoted to negotiation planning. The remainder of the time claimed by the district is unallowable.
- Town hall meetings and benefit forums – These meetings are held by the district and are open to the members of the community with the goal of educating the community. Such meetings are informational and educational, and are not negotiation planning activities; therefore, all costs claimed related to these meetings are unallowable.
- Pre-board meetings – Pre-board meetings are standing, informal meetings with union representatives to review agendas for the board meetings and discuss issues or activities of the college and how they may impact classified employees. Similar to the town hall meetings and benefit forums, these meetings are informational rather than negotiation planning sessions. Therefore, all costs claimed related to these meetings are unallowable.
- Cabrillo College Federation of Teachers representation meetings – These meetings occur once a month so that members may share and discuss information related to upcoming negotiations. Similar to the other meetings mentioned above, we found these monthly meetings to be informational in nature. Moreover, the district did not support how much time was spent on actual planning for an upcoming at-table negotiation session; therefore, all costs claimed related to these meetings are unallowable.
- Mandate Reimbursement Process claim preparation activities – These activities, such as tracking times for collective bargaining-related activities, for the purpose of claiming reimbursement are not allowable. Instead, these costs are claimable on a separate mandate claim called “Mandated Reimbursement Process.”

*Overstated costs*

The district double-claimed \$9,109 in costs. The district used meeting sign-in sheets and individual employee mandate reimbursement time logs to keep track of the time spent performing collective bargaining activities. We found several instances in which the district claimed costs from the time logs that were already claimed from the sign-in sheets.

Additionally, for fiscal year (FY) 2006-07, the district claimed 61.50 hours for a note-taker to participate in at-table negotiations. We tallied the time reported on various the at-table negotiation sign-in sheets and confirmed that only 55.50 hours was spent by the note-taker in at-table negotiations. Therefore, the remaining six hours, totaling \$244, are unallowable.

*Misstated costs*

For FY 2010-11, the district inadvertently claimed 69 hours for the Dean of Instructional Development when the time was reported on the sign-in sheets and claimed by the Vice President of Administrative Services. As such, we found that the 69 hours, totaling \$6,913, are unallowable.

In addition, for FY 2010-11, the district claimed two hours for four district employees to participate in at-table negotiations on May 11, 2011. Review of the supporting documentation shows that the costs claimed were for negotiation planning sessions; however, we allowed all of the time for negotiation planning sessions that were supported by source documentation. We found that the district overstated costs by \$721.

Also, for FY 2010-11, the district claimed \$259 for the Dean of Health, Wellness, Physical Education and Athletics (HWPEA) to participate in a planning session when the time log clearly showed that the cost was incurred to participate in a grievance arbitration. As such, we will reclassify \$259 to the Contract Administration cost component.

*Unsupported costs*

The district claimed \$5,767 in unsupported costs. The district claimed hours that are not supported or traceable to any supporting documentation and claimed hours that do not indicate how the claimed activity related to collective bargaining.

For example, for FY 2005-06, the district provided a mandated cost reimbursement time log and a calendar to support the time claimed for a district employee. However, neither the time log nor the calendar included a description of the activity performed to demonstrate how the hours claimed are related to the collective bargaining program.

*Unclaimed costs*

The district did not claim \$2,943 in eligible collective bargaining costs. These costs were supported by source documentation, such as the at-table negotiation sign-in sheets and the mandate reimbursement time logs. In most instances, it appears that the district incorrectly totaled the hours reported on the supporting documentation.

**Component G6 – Contract Administration**

The district claimed \$39,930 for salaries and benefits for the Contract Administration cost component. We found that \$34,451 is allowable and \$5,479 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs, double-claimed costs, could not support all the costs claimed, and under-claimed costs.

The following table summarizes the audit adjustments for the Contract Administration cost component by fiscal year:

	Fiscal Year					Total
	2005-06	2006-07	2007-08	2010-11	2011-12	
Ineligible costs	\$ -	\$ (345)	\$ (649)	\$ (1,039)	\$ (1,684)	\$ (3,717)
Double-claimed costs	-	-	(202)	(908)	(823)	(1,933)
Unsupported costs	-	-	(202)	-	(50)	(252)
Reclassified costs	-	-	-	259	-	259
Unclaimed costs	-	-	164	-	-	164
<b>Audit Adjustment</b>	<b>\$ -</b>	<b>\$ (345)</b>	<b>\$ (889)</b>	<b>\$ (1,688)</b>	<b>\$ (2,557)</b>	<b>\$ (5,479)</b>

The parameters and guidelines (section G.6. – Claim Components (Reimbursable Costs)) state, in part:

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

- a. Salaries and benefits of employer personnel involved in adjudication of contract disputes. Contracted services will be reimbursed.
- 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 information programs, i.e., classes, conferences, seminars, workshops, and time spent by employees attending such meetings are not reimbursable.

*Ineligible costs*

The district claimed \$3,717 in ineligible costs as follows:

- Contract training sessions – For FY 2011-12, the district claimed \$1,684 for contract training provided to Human Resources personnel who were not supervisory or management. The parameters and guidelines specify that training is limited to supervisory and management personnel.
- Grievances that are not collective bargaining-related – The district claimed \$1,599 for grievances that are not collective bargaining-related. We tested nine grievance cases and found that two are personnel-related grievances that are not allowable. Therefore, all of the time associated with these two grievances is unallowable.

- Preparation for manager meetings – The district claimed \$434 in preparation costs for manager meetings. Preparation time is not identified in the parameters and guidelines as an allowable activity.

#### *Double-claimed costs*

The district double-claimed \$1,933 in costs. The district used training sign-in sheets and employee time logs to keep track of the time spent performing mandated activities. We found several instances in which the district claimed costs from the time logs that were already claimed from the training sign-in sheets.

#### *Unsupported costs*

The district claimed \$252 in unsupported costs. For FY 2011-12, the district claimed 0.75 hours for the Director of Student Health Services to participate in training sessions; these hours are not supported by any source documentation. In addition, for FY 2007-08, the district claimed two hours for the Vice President of Business Services to participate in training sessions that are not supported by any source documentation.

#### *Reclassified costs*

For FY 2010-11, the district claimed \$259 for the Dean of HWPEA to participate in a planning session when the time log clearly showed that the cost was incurred to participate in a grievance arbitration. As such, \$259 has been reclassified from the Cost of Negotiations cost component to the Contract Administration cost component.

#### *Unclaimed costs*

For FY 2007-08, the district did not claim \$164 in eligible collective bargaining costs. The district did not claim two hours for the Director of Business Services to participate in a collective bargaining-related grievance meeting. The two hours were supported by a mandate reimbursement time log.

#### Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, 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 must identify the mandated functions performed.

## **FINDING 2— Unallowable contract services**

The district claimed \$88,154 for contract services for the audit period. We found that \$79,727 is allowable and \$8,427 is unallowable. The costs are unallowable because the district claimed ineligible costs.

The following table summarizes the claimed, allowable, and unallowable contract service costs for the audit period by fiscal year:

<u>Reimbursable Component</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2005-06</u>			
G3 - Cost of Negotiations	\$ 1,580	\$ 1,580	\$ -
G6 - Contract Administration	1,283	1,283	-
Total, FY 2005-06	<u>2,863</u>	<u>2,863</u>	<u>-</u>
<u>FY 2006-07</u>			
G3 - Cost of Negotiations	4,894	4,894	-
G6 - Contract Administration	2,255	2,255	-
Total, FY 2006-07	<u>7,149</u>	<u>7,149</u>	<u>-</u>
<u>FY 2007-08</u>			
G1 - Determining Bargaining Units	432	432	-
G3 - Cost of Negotiations	1,094	1,094	-
G6 - Contract Administration	81	81	-
Total, FY 2009-10	<u>1,607</u>	<u>1,607</u>	<u>-</u>
<u>FY 2010-11</u>			
G3 - Cost of Negotiations	15,850	15,850	-
G6 - Contract Administration	10,363	10,363	-
G7 - Unfair Labor Practice Charges	1,816	1,816	-
Total, FY 2010-11	<u>1,816</u>	<u>1,816</u>	<u>-</u>
<u>FY 2011-12</u>			
G3 - Cost of Negotiations	47,210	38,783	(8,427)
G6 - Contract Administration	1,296	1,296	-
Total, FY 2011-12	<u>1,296</u>	<u>1,296</u>	<u>-</u>
<u>Recap: by Reimbursable Component</u>			
G1 - Determining Bargaining Units	432	432	-
G3 - Cost of Negotiations	70,628	62,201	(8,427)
G6 - Contract Administration	15,278	15,278	-
G7 - Unfair Labor Practice Charges	1,816	1,816	-
Total Contract Services	<u>\$ 88,154</u>	<u>\$ 79,727</u>	<u>\$ (8,427)</u>

### Component G3 – Cost of Negotiations

For FY 2011-12, the district claimed \$8,427 in contract services for its attorneys to implement layoffs and participate in grievances for which collective bargaining contract rights were not cited as having been violated. Implementing terms and conditions of layoffs that have already been negotiated is not an allowable activity. Further, a grievance is a dispute involving the interpretation, application, or violation of a collective bargaining agreement. As the grievant did not cite what contract provision was violated by the district, the costs claimed are not allowable.

The parameters and guidelines (section G.6. – Claim Components (Reimbursable Costs)) state in part:

- a. Salaries and benefits of employer personnel involved in adjudication of contract disputes. Contract services will be reimbursed. Salaries and benefits must be shown as described in Item H3.

#### Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, 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.

### **FINDING 3— Understated indirect cost**

The district claimed \$118,952 for indirect costs for the audit period. We found that \$132,111 is allowable. The district understated indirect costs by \$13,159 primarily because it understated the FAM-29C rate for FY 2006-07, FY 2007-08, FY 2010-11, and FY 2011-12. However, the district also applied the claimed indirect cost rate to unallowable direct costs (see Findings 1 and 2) and did not apply the FAM-29C rate to the proper direct cost base for FY 2006-07 and FY 2007-08.

For FY 2005-06, the district claimed indirect costs using the allowable default rate of 7%. For FY 2006-07, FY 2007-08, FY 2010-11, and FY 2011-12, the district claimed indirect costs using the FAM-29C methodology outlined in the SCO's claiming instructions.

The FAM-29C is calculated using information contained in the California Community Colleges Annual Financial and Budget Report (CCFS-311). We adjusted the FAM-29C rate for all the fiscal years claimed as follows:

- FY 2006-07 – The district reported the wrong direct expenditure cost on the FAM-29C for both Instructional Support Services (# 6100) and Admissions and Records (# 6200). Also, the district did not include depreciation as an indirect cost on the FAM-29C.
- FY 2007-08 – For FY 2007-08 the FAM-29C formula changed to a direct cost base of only salaries and benefits. When calculating the FY 2007-08 FAM-29C rate, the district incorrectly used the FY 2006-07 FAM-29C formula, which uses a direct costs base of total direct costs. Also, the district did not include depreciation as an indirect cost on the FAM-29C.
- FY 2010-11 – The district incorrectly classified Community Relations (# 6710) as an indirect cost instead of a direct cost. Also, the district did not include depreciation as an indirect cost on the FAM-9C.
- FY 2011-12 – The district did not include depreciation as an indirect cost on the FAM-29C.

The following table summarizes the understated indirect cost rates by fiscal year:

Fiscal Year	Claimed FAM-29C Rate	Allowable FAM-29C Rate	Difference
2006-07	28.31%	34.46%	6.15%
2007-08	26.89%	37.92%	11.03%
2010-11	33.47%	43.73%	10.26%
2011-12	32.59%	49.16%	16.57%

In addition, the FY 2006-07 FAM-29C rate is applied to total direct costs; however the district incorrectly excluded contract services from the indirect cost rate calculation. Also, the FY 2007-08 FAM-29C rate is applied to only salaries and benefits; however, the district incorrectly applied the FAM-29C rate to materials and supplies.

The following table summarizes the claimed, allowable, and unallowable indirect costs for the audit period by fiscal year:

Fiscal Year	Allowable Salaries and Benefits <sup>1</sup>	Allowable Direct Costs <sup>2</sup>	Allowable Indirect Cost Rate	Allowable Indirect Costs	Claimed Indirect Costs	Audit Adjustment
2005-06	\$ -	\$ 37,749	7.00%	\$ 2,643	\$ 3,146	\$ (503)
2006-07	-	69,816	34.46%	24,059	21,101	2,958
2007-08	47,240	-	37.92%	17,913	17,841	72
2010-11	78,564	-	43.73%	34,356	33,650	706
2011-12	108,096	-	49.16%	53,140	43,214	9,926
Total				\$ 132,111	\$ 118,952	\$ 13,159

<sup>1</sup> The FAM-29C rates for FY 2007-08, FY 2010-11, and FY 2011-12 are applied to allowable salaries and benefits.

<sup>2</sup> The FY 2005-06 default rate of 7% and the FY 2006-07 FAM-29C rate is applied to allowable direct costs.

The parameters and guidelines (section H.6. – Supporting Data for Claims – Report Format for Submission of Claim) state:

Community College Districts must use one of the following three alternatives:

- A Federally-approved rate based on OMB Circular A-21;
- The State Controller’s FAM-29C which uses the CCFS-311; or
- Seven percent (7%)

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.7, 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 SCO claiming instructions for calculating indirect costs.

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**