

ELK GROVE 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, 2012



BETTY T. YEE
California State Controller

November 2015



BETTY T. YEE
California State Controller

November 23, 2015

Bobbie Singh-Allen, President
Board of Education
Elk Grove Unified School District
9510 Elk Grove-Florin Road
Elk Grove, CA 95624

Dear Ms. Singh-Allen:

The State Controller's Office audited the costs claimed by the Elk Grove 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, 2012.

The district claimed \$1,490,978 for the mandated program. Our audit found that \$1,298,338 is allowable and \$192,640 is unallowable. The costs are unallowable primarily because the district claimed ineligible, unsupported, and overstated costs; and did not claim indirect costs for contract services. The State paid the district \$85,176. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,213,162, contingent upon available appropriations.

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/ljs

cc: Christopher R. Hoffman, Superintendent
Elk Grove Unified School District
Rich Fagan, Associate Superintendent of Finance and School Support
Elk Grove Unified School District
David Reilly, Associate Superintendent of Human Resources
Elk Grove Unified School District
Carrie Hargis, Director of Fiscal Services
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Elk Grove 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, 2012.

The district claimed \$1,490,978 for the mandated program. Our audit found that \$1,298,338 is allowable and \$192,640 is unallowable. The costs are unallowable primarily because the district claimed ineligible, unsupported, and overstated costs; and did not claim indirect costs for contract services. The State paid the district \$85,176. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,213,162, 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 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, 2008, 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 Elk Grove Unified School District claimed \$1,490,978 for costs of the Collective Bargaining and Collective Bargaining Agreement Disclosure Program. Our audit found that \$1,298,338 is allowable and \$192,640 is unallowable. The State paid the district \$85,176. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,213,162, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on November 6, 2015. Shelley Clark, Manager of Accounting, emailed us on November 16, 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 Elk Grove Unified School District, the Sacramento 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

November 23, 2015

Schedule—

Summary of Program Costs

July 1, 2008, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 81,754	\$ 68,214	\$ (13,540)	Finding 1
Materials and supplies	5,259	415	(4,844)	Finding 2
Contract services	171,832	150,901	(20,931)	Finding 3
Subtotal	258,845	219,530	(39,315)	
Less base-year direct costs adjusted by the Implicit Price Deflator	-	-	-	
Increased direct costs, G1 through G3	258,845	219,530	(39,315)	
Component activities G4 through G7:				
Salaries and benefits	34,606	5,744	(28,862)	Finding 1
Contract services	32,226	42,445	10,219	Finding 3
Increased direct costs, G4 through G7	66,832	48,189	(18,643)	
Total increased direct costs, G1 through G7	325,677	267,719	(57,958)	
Indirect costs	5,156	11,352	6,196	Findings 1,2,4
Total program costs	<u>\$ 330,833</u>	279,071	<u>\$ (51,762)</u>	
Less amount paid by the State		(40,968)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 238,103</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 201,349	\$ 189,832	\$ (11,517)	Finding 1
Materials and supplies	19,764	8,354	(11,410)	Finding 2
Contract services	198,477	170,526	(27,951)	Finding 3
Subtotal	419,590	368,712	(50,878)	
Less base-year direct costs adjusted by the Implicit Price Deflator	-	-	-	
Increased direct costs, G1 through G3	419,590	368,712	(50,878)	
Component activities G4 through G7:				
Salaries and benefits	2,653	1,654	(999)	Finding 1
Contract services	11,583	9,113	(2,470)	Finding 3
Increased direct costs, G4 through G7	14,236	10,767	(3,469)	
Total increased direct costs, G1 through G7	433,826	379,479	(54,347)	
Indirect costs	23,036	20,151	(2,885)	Findings 1,2,3
Total program costs	<u>\$ 456,862</u>	399,630	<u>\$ (57,232)</u>	
Less amount paid by the State		(43,208)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 356,422</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 135,257	\$ 132,099	\$ (3,158)	Finding 1
Materials and supplies	3,328	3,328	-	
Contract services	232,797	190,958	(41,839)	Finding 3
Subtotal	371,382	326,385	(44,997)	
Less base-year direct costs adjusted by the Implicit Price Deflator	-	-	-	
Increased direct costs, G1 through G3	371,382	326,385	(44,997)	
Component activities G4 through G7:				
Salaries and benefits	3,773	2,237	(1,536)	Finding 1
Increased direct costs, G4 through G7	3,773	2,237	(1,536)	
Total increased direct costs, G1 through G7	375,155	328,622	(46,533)	
Indirect costs	21,421	18,765	(2,656)	Findings 1,3
Total program costs	<u>\$ 396,576</u>	347,387	<u>\$ (49,189)</u>	
Less amount paid by the State		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 347,387</u>		
<u>July 1, 2011, through June 30, 2012</u>				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	\$ 143,643	\$ 127,348	\$ (16,295)	Finding 1
Contract services	145,638	122,958	(22,680)	Finding 3
Subtotal	289,281	250,306	(38,975)	
Less base-year direct costs adjusted by the Implicit Price Deflator	-	-	-	
Increased direct costs, G1 through G3	289,281	250,306	(38,975)	
Component activities G4 through G7:				
Salaries and benefits	914	7,287	6,373	Finding 1
Increased direct costs, G4 through G7	914	7,287	6,373	
Total increased direct costs, G1 through G7	290,195	257,593	(32,602)	
Indirect costs	16,512	14,657	(1,855)	Findings 1,3
Total program costs	<u>\$ 306,707</u>	272,250	<u>\$ (34,457)</u>	
Less amount paid by the State		(1,000)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 271,250</u>		

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>Summary: July 1, 2008, through June 30, 2012</u>				
Total increased direct costs	\$1,424,853	1,233,413	\$(191,440)	
Indirect costs	66,125	64,925	(1,200)	
Total program costs	<u>\$1,490,978</u>	1,298,338	<u>\$(192,640)</u>	
Less amount paid by the State		(85,176)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$1,213,162</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries and benefits

The district claimed \$603,949 in salaries and benefits for the audit period. We found that \$534,415 is allowable and \$69,534 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs, overstated substitute costs, misclassified costs, and under-claimed costs. Unallowable related indirect costs total \$3,293.

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

Reimbursable Component	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2008-09</u>			
G3 - Cost of Negotiations	\$ 81,754	\$ 68,214	\$ (13,540)
G6 - Contract Administration	34,606	5,744	(28,862)
Subtotal, salaries and benefits	116,360	73,958	(42,402)
Related indirect costs	4,933	3,136	(1,797)
Subtotal; salaries, benefits, and related indirect costs	121,293	77,094	(44,199)
<u>FY 2009-10</u>			
G3 - Cost of Negotiations	201,349	189,832	(11,517)
G6 - Contract Administration	2,653	1,132	(1,521)
G7 - Unfair Labor Practice Charges	-	522	522
Subtotal, salaries and benefits	204,002	191,486	(12,516)
Related indirect costs	10,833	10,168	(665)
Subtotal; salaries, benefits, and related indirect costs	214,835	201,654	(13,181)
<u>FY 2010-11</u>			
G3 - Cost of Negotiations	135,257	132,099	(3,158)
G6 - Contract Administration	3,773	2,237	(1,536)
Subtotal, salaries and benefits	139,030	134,336	(4,694)
Related indirect costs	7,938	7,671	(267)
Subtotal; salaries, benefits, and related indirect costs	146,968	142,007	(4,961)
<u>FY 2011-12</u>			
G3 - Cost of Negotiations	143,643	127,348	(16,295)
G6 - Contract Administration	914	6,799	5,885
G7 - Unfair Labor Practice Charges	-	488	488
Subtotal, salaries and benefits	144,557	134,635	(9,922)
Related indirect costs	8,225	7,661	(564)
Subtotal; salaries, benefits, and related indirect costs	152,782	142,296	(10,486)
<u>Total Salaries and Benefits</u>			
G3 - Cost of Negotiations	562,003	517,493	(44,510)
G6 - Contract Administration	41,946	15,912	(26,034)
G7 - Unfair Labor Practice Charges	-	1,010	1,010
Subtotal, salaries and benefits	603,949	534,415	(69,534)
Related indirect costs	31,929	28,636	(3,293)
Total; salaries, benefits, and related indirect costs	\$ 635,878	\$ 563,051	\$ (72,827)

The program's parameters and guidelines (section G – Claim Components (Reimbursable Costs)) state, in part:

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.

Component G3 – Cost of Negotiations

The district claimed \$562,003 in salaries and benefits for the Cost of Negotiations cost component for the audit period. We found that \$517,493 is allowable and \$44,510 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs, overstated costs, misclassified costs, and under-claimed costs.

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

	Fiscal Year				Total
	2008-09	2009-10	2010-11	2011-12	
Overstated substitute costs	\$ -	\$ (34,692)	\$(31,599)	\$(29,603)	\$ (95,894)
Unsupported costs	(14,340)	(4,991)	-	(5,513)	(24,844)
Ineligible costs	(6,570)	(2,922)	(6,069)	(3,917)	(19,478)
Unclaimed costs	2,464	31,088	33,312	22,738	89,602
Reclassified substitute costs	4,906	-	-	-	4,906
Understated productive hourly rate	-	-	1,198	-	1,198
Audit adjustment	<u>\$ (13,540)</u>	<u>\$ (11,517)</u>	<u>\$ (3,158)</u>	<u>\$(16,295)</u>	<u>\$ (44,510)</u>

The parameters and guidelines (section G3) state:

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 costs 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.

- b. Show the costs of salaries and benefits for employer representatives and employees participating in negotiations planning sessions. Contracted services for employer representatives will be reimbursed. Salaries and benefits must be shown as described in Item H3.
- c. Indicate the cost of substitutes for release time of exclusive bargaining unit representatives during negotiations. Give the job classification of the bargaining unit representative that required the substitute and dates the substitute worked. Substitute costs for a maximum of five representatives per unit, per negotiation session will be reimbursed. The salaries of union representatives are not reimbursable.
- d. Reasonable costs of reproduction for a copy of the initial contract proposal and final contract, which is applicable and distributed to each employer representative (i.e. supervisory, management, confidential) and a reasonable number of copies for public information will be reimbursed. Provide detail of costs and/or include invoices. Cost for copies of a final contract provided to collective bargaining unit members are not reimbursable.

Overstated substitute costs

The district claimed \$130,930 in substitute costs. We found that \$35,036 is allowable and \$95,894 is unallowable. For FY 2009-10 through FY 2011-12, the district claimed five substitutes for each at-table negotiation even though not all bargaining unit representatives requested a substitute. In addition, the district claimed reimbursement for the cost of a full-day substitute even though most at-table negotiations did not require a full-day substitute.

To determine the allowable substitute costs, we tallied the substitutes identified on each sign-in sheet for each union (up to a maximum of five substitutes) and multiplied the total by the hourly duration of each negotiation session to determine the allowable hours. Next we multiplied the allowable hours by the substitute's hourly rate and found that \$35,036 is allowable.

Unsupported costs

The district claimed \$24,844 in unsupported costs. To support the hours claimed, the district provided mandate activity forms for individual district employees, meeting sign-in sheets, and collective bargaining summary forms; however, not all of the hours claimed were traceable to the documentation provided by the district, leaving the remaining hours unsupported. The unsupported hours are primarily due to the following:

- For FY 2008-09, the district claimed 206.25 hours for the Associate Superintendent of Human Resources to participate in at-table negotiations; however, the district only provided at-table negotiation sign-in sheets to support 116.5 hours. The remaining 89.75 hours, totaling \$10,575, are unsupported.

- For FY 2008-09, the district claimed 135.25 hours for the Senior Administrative Assistant in Human Resources to participate as a note-taker during table negotiations; however, the district only provided sign-in sheets to support 100.50 hours. The remaining 34.75 hours, totaling \$1,750, are unsupported.
- For FY 2008-09, the district did not provide any documentation to support 12.40 hours for the Director of Human Resources and 7.75 hours for an employee in Human Resources to participate in side-table negotiations. The unsupported costs total \$1,531.
- For FY 2009-10, the district claimed 167 hours for the Director of Fiscal Services to participate in Elk Grove Education Association (EGEA) at-table negotiations; however, the district provided at-table negotiation sign-in sheets supporting 125.75 hours only. The remaining 41.25 hours, totaling \$4,270, are unsupported.
- For FY 2011-12, the district claimed 45.25 hours for the Associate Superintendent of Business Services and 30 hours for a Senior Administrative Assistant to participate in California School Employee Association (CSEA) negotiations; however, the district provided sign-in sheets supporting 16.75 hours and 6.50 hours only, respectively. The remaining 52 combined hours, totaling \$4,158, are unsupported.

Ineligible costs

The district claimed \$19,478 in ineligible costs as follows:

- Ineligible 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 strategizing for an upcoming negotiation. However, the district claimed reimbursement for time spent in individual preparation activities, which is not an allowable activity.
- Ineligible joint-unit meetings – A joint-unit meeting includes several bargaining units meeting to review collective bargaining items together. As the time was not spent negotiating terms and conditions of a contract with union representatives, the time spent participating in these meetings is not an allowable activity.
- Ineligible health benefit cost containment meetings – Part of the district's collective bargaining agreements include a requirement that district employees meet and develop a plan to curb health benefit costs. As reimbursement is limited to negotiation activities, the costs claimed to implement contract provisions of an already negotiated collective bargaining agreement are not allowable activities.

Unclaimed costs

The district did not claim \$89,602 in eligible costs as follows:

- Unclaimed at-table negotiation costs – The district did not claim allowable salaries and benefits, totaling \$86,206, for at-table negotiations. In several instances, we found that the district did not

claim reimbursement for the maximum of five district employer representatives participating in negotiations. In addition, the district did not claim reimbursement for the note-taker. We allowed reimbursement for the maximum of five district employer representatives and all note-takers identified on the at-table negotiation sign in sheets.

- Unclaimed negotiation planning sessions – For FY 2009-10, the district did not claim allowable salaries and benefits, totaling \$1,953, for negotiation planning session costs. During audit fieldwork, we found sign-in sheets for pre-EGEA negotiation meetings, dated August 25, 2009, and February 18, 2010, which were not claimed. We allowed all hours supported by the negotiation planning sign-in sheets.
- Unclaimed reproduction and distribution of the final contract – For FY 2010-11 and FY 2011-12, the district did not claim allowable salaries and benefits, totaling \$1,443, for reproduction and distribution of the final contract. We allowed all hours supported by the mandate activity logs.

Reclassified substitute costs

For FY 2008-09, the district claimed \$4,844 in substitute costs as a material and supply costs instead of a salary and benefit costs. As this amount claimed is allowable, we have reclassified it to salaries and benefits from the materials and supplies cost element (see Finding 2).

In addition, for FY 2008-09 we found that the district understated substitute costs by \$62 because it miscalculated the substitute costs incurred for the CSEA.

Understated Productive Hourly Rate

For FY 2010-11, the district understated the productive hourly rate of the Associate Superintendent of Education Services. The district claimed a productive hourly rate of \$9.45 instead of the actual rate of \$118.38. To calculate the understatement, we multiplied the productively hourly rate difference by 11 allowable hours and found that the district understated costs by \$1,198.

Component G6 – Contract Administration

The district claimed \$41,946 in salaries and benefits for the Contract Administration cost component for the audit period. We found that \$15,912 is allowable and \$26,034 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs, misclassified costs, and under-claimed costs.

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

	Fiscal Year				Total
	2008-09	2009-10	2010-11	2011-12	
Unsupported costs	\$ (9,422)	\$ (1,925)	\$ (2,488)	\$ (914)	\$ (14,749)
Ineligible costs	(11,081)	(218)	-	-	(11,299)
Misclassified costs	(10,463)	-	-	-	(10,463)
Unclaimed costs	2,104	622	952	6,799	10,477
Audit adjustment	<u>\$ (28,862)</u>	<u>\$ (1,521)</u>	<u>\$ (1,536)</u>	<u>\$ 5,885</u>	<u>\$ (26,034)</u>

The parameters and guidelines (section G6) 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...

Unsupported costs

The district claimed \$14,749 in unsupported costs. To support the hours claimed, the district provided mandate activity forms for individual district employees; however, not all of the hours claimed were traceable to the documentation provided by the district, leaving the remaining hours unsupported. The unsupported hours are primarily due to the following:

- For FY 2008-09, the district claimed 125.06 hours for the Director of Classified Personnel's involvement in the adjudication of contract disputes; however, the district provided mandate activity logs supporting 21.40 hours only. In addition, of the 21.40 hours that were supported, we found that 2.25 hours were spent on a personnel-related grievance, which is ineligible for reimbursement (as discussed below). The remaining 103.66 hours, totaling \$9,105, are unsupported.
- For FY 2009-10, the district claimed 29.25 hours for the Director of Classified Personnel's involvement in the adjudication of contract disputes; however, the district provided mandate activity logs supporting 6.25 hours only. In addition, of the 6.25 hours that were supported, we found that 2.75 hours were spent on a personnel-related grievance, which is ineligible for reimbursement (as discussed below). The remaining 23 hours, totaling \$1,822, are unsupported.

- For FY 2010-11, the district claimed 29.50 hours for the Director of Classified Personnel's involvement in the adjudication of contract disputes; however, the district provided mandate activity logs supporting 4 hours only. The remaining 25.50 hours, totaling \$2,001, are unsupported.
- For FY 2011-12, the district claimed 19 hours for the Senior Administrative Assistant in Human Resources' involvement in the adjudication of contract disputes; however, the district did not provide any documentation to support the costs claimed. As such, the 19 hours, totaling \$914, are unsupported.

Ineligible costs

The district claimed \$11,299 in ineligible costs as follows:

- The district claimed \$198 for FY 2008-09 and \$218 for FY 2009-10 for the Director of Classified Personnel's involvement in two personnel-related grievances. Personnel-related grievances are not allowable since reimbursement is limited to adjudication of contract disputes.
- For FY 2008-09, the district claimed \$10,883 in ineligible contract training costs. During audit fieldwork, the district stated that the purpose of the contract training meetings was to ensure that the collective bargaining agreement accurately reflects the language agreed upon during negotiations. Allowable contract training costs would be for training sessions held for supervisory and management personnel of a negotiated contract. As the claimed hours are to ensure the accuracy of the collective bargaining agreement language before it becomes finalized, the costs claimed are unallowable.

Reclassified costs

For FY 2008-09, the district incorrectly classified \$10,463 in attorney fees as a salary and benefit cost. As the amount claimed is for an allowable activity, we reclassified this cost from salaries and benefits to the contract services cost element (see Finding 3).

Unclaimed costs

The district did not claim \$10,477 in allowable salaries and benefits related to the adjudication of contract disputes. During audit fieldwork, the district provided mandate activity logs to support district staff time spent on grievances. We allowed all hours for collective bargaining-related grievances that were supported by source documentation.

Component G7 – Unfair Labor Practice Charges

The district did not claim any salaries and benefits for the Unfair Labor Practice Charges cost component for the audit period. We found that \$1,010 is allowable (\$522 for FY 2009-10 and \$488 for FY 2011-12). During audit fieldwork, the district provided mandate activity logs to support district staff time spent on unfair labor practice charges. We allowed all hours supported by source documentation.

The parameters and guidelines (section G7) state, in part:

Unfair labor practice adjudication process and public notice complaints.

- a. Show the actual costs for salaries and benefits of employer representatives. Services contracted by the public school employer are reimbursable. 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 17581.6, 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.

**FINDING 2—
Unallowable materials
and supplies**

The district claimed \$28,351 in materials and supplies for the audit period. We found that \$12,097 is allowable and \$16,254 is unallowable. The costs are unallowable because the district claimed ineligible and overstated costs, misclassified costs, and under-claimed costs. Unallowable related indirect costs total \$810.

The following table summarizes the claimed, allowable, and unallowable materials and supplies by reimbursable component for the audit period:

<u>Reimbursable Component</u>	<u>Amount Claimed</u>	<u>Amount Allowable</u>	<u>Audit Adjustment</u>
<u>FY 2008-09</u>			
G3 - Cost of Negotiations	\$ 5,259	\$ 415	\$ (4,844)
Subtotal, materials and supplies	5,259	415	(4,844)
Related indirect costs	223	18	(205)
Subtotal; materials, supplies, and related indirect costs	5,482	433	(5,049)
<u>FY 2009-10</u>			
G3 - Cost of Negotiations	19,764	8,354	(11,410)
Subtotal, materials and supplies	19,764	8,354	(11,410)
Related indirect costs	1,049	444	(605)
Subtotal; materials, supplies, and related indirect costs	20,813	8,798	(12,015)
<u>FY 2010-11</u>			
G3 - Cost of Negotiations	3,328	3,328	-
Subtotal, contract services	3,328	3,328	-
Related indirect costs	190	190	-
Subtotal; materials, supplies, and related indirect costs	3,518	3,518	-
<u>Total Materials and Supplies</u>			
G3 - Cost of Negotiations	28,351	12,097	(16,254)
Subtotal, contract services	28,351	12,097	(16,254)
Related indirect costs	1,462	652	(810)
Total; materials, supplies, and related indirect costs	\$ 29,813	\$ 12,749	\$ (17,064)

Component G3 – Cost of Negotiations

The district claimed \$28,351 in materials and supplies for the Cost of Negotiations cost component for the audit period. We found that \$12,097 is allowable and \$16,254 is unallowable. The costs are unallowable because the district claimed ineligible and overstated costs, misclassified costs, and under-claimed costs.

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

	<u>Fiscal Year</u>		<u>Total</u>
	<u>2008-09</u>	<u>2009-10</u>	
Ineligible costs	\$ -	\$ (11,698)	\$ (11,698)
Reclassified costs	(4,844)		(4,844)
Overstated costs		(4,141)	(4,141)
Unclaimed costs		4,429	4,429
Audit Adjustment	\$ (4,844)	\$ (11,410)	\$ (16,254)

Ineligible costs

For FY 2009-10, the district claimed \$11,698 in ineligible costs. The district claimed legal services related to the selection of a new third-party administrator for the district's tax shelter annuity program. As identified in the negotiated collective bargaining agreements, the tax shelter annuity program is part of the benefits offered to district employees. As the process of selecting an administrator is implementation of an existing term of a collective bargaining agreement, the activities claimed are not allowable.

Reclassified costs

For FY 2008-09, the district claimed \$4,844 in substitute costs as a material and supply cost instead of a salary and benefit cost. As this amount claimed is allowable, we have reclassified it to the salaries and benefits costs element (see Finding 1).

Overstated costs

For FY 2009-10, the district claimed \$4,141 in overstated costs. The overstatement occurred because the district claimed the actual hourly rates of the Hanson Bridgett LLP attorneys instead of the maximum allowable hourly rate identified in the parameters and guidelines. As all of the hours claimed are allowable, we recalculated the allowable hours at the maximum rate of \$135 per hour and found that \$4,141 is unallowable.

Unclaimed costs

For FY 2009-10, the district under-claimed costs by \$4,429. The district provided Lozano Smith attorney invoices to support disbursements (e.g. travel, meals, and postage) totaling \$24,193, yet claimed reimbursement for \$19,764 only. We found that the difference of \$4,429 is allowable.

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.

**FINDING 3—
Unallowable contract
services**

The district claimed \$792,553 in contract services for the audit period. We found that \$686,901 is allowable and \$105,652 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs, overstated costs, misclassified costs, and under-claimed costs. Unallowable related indirect costs total \$5,295.

The following table summarizes the claimed, allowable, and unallowable contract services by reimbursable component for the audit period:

Reimbursable Component	Amount Claimed	Amount Allowable	Audit Adjustment
<u>FY 2008-09</u>			
G3 - Cost of Negotiations	\$ 171,832	\$ 150,901	\$ (20,931)
G4 - Impasse Proceedings	311	311	-
G6 - Contract Administration	1,687	11,947	10,260
G7 - Unfair Labor Practice Charges	30,228	30,187	(41)
Subtotal, contract services	204,058	193,346	(10,712)
Related indirect costs	-	- ¹	-
Subtotal, contract services and related indirect costs	204,058	193,346	(10,712)
<u>FY 2009-10</u>			
G3 - Cost of Negotiations	198,477	170,526	(27,951)
G4 - Impasse Proceedings	-	2,160	2,160
G6 - Contract Administration	2,970	1,350	(1,620)
G7 - Unfair Labor Practice Charges	8,613	5,603	(3,010)
Subtotal, contract services	210,060	179,639	(30,421)
Related indirect costs	11,154	9,539	(1,615)
Subtotal, contract services and related indirect costs	221,214	189,178	(32,036)
<u>FY 2010-11</u>			
G3 - Cost of Negotiations	232,797	190,958	(41,839)
Subtotal, contract services	232,797	190,958	(41,839)
Related indirect costs	13,293	10,904	(2,389)
Subtotal, contract services and related indirect costs	246,090	201,862	(44,228)
<u>FY 2011-12</u>			
G3 - Cost of Negotiations	145,638	122,958	(22,680)
Subtotal, contract services	145,638	122,958	(22,680)
Related indirect costs	8,287	6,996	(1,291)
Subtotal, contract services and related indirect costs	153,925	129,954	(23,971)
<u>Total Contract Services</u>			
G3 - Cost of Negotiations	748,744	635,343	(113,401)
G4 - Impasse Proceedings	311	2,471	2,160
G6 - Contract Administration	4,657	13,297	8,640
G7 - Unfair Labor Practice Charges	38,841	35,790	(3,051)
Subtotal, contract services	792,553	686,901	(105,652)
Related indirect costs	32,734	27,439	(5,295)
Total, contract services and related indirect costs	<u>\$ 825,287</u>	<u>\$ 714,340</u>	<u>\$ (110,947)</u>

¹ For FY 2008-09, the district did not claim indirect costs for contract services; see Finding 4.

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

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.

The parameters and guidelines (section H(5) – Professional and Consultant Services) state, in part:

Professional and Consultant Services: ... Invoices must be submitted as supporting documentation with your claim. The maximum reimbursable fee for contracted services is \$135 per hour. Annual retainer fees shall be no greater than \$135 per hour. Reasonable expenses will also be paid as identified on the monthly billings of consultants. However, travel expenses for consultants and experts (including attorneys) hired by the claimant shall not be reimbursed in an amount higher than that received by State employees, as established under Title 2, Div. 2, Section 700ff, CAC.

Component G3 – Cost of Negotiations

The district claimed \$748,744 in contract services for the Cost of Negotiations cost component for the audit period. We found that \$635,343 is allowable and \$113,401 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs, overstated costs, and under-claimed costs.

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

	Fiscal Year				Total
	2008-09	2009-10	2010-11	2011-12	
Ineligible costs:					
Ineligible courtesy discounts	\$ (6,129)	\$ (18,549)	\$ (17,010)	\$ (14,971)	\$ (56,659)
Ineligible activities	(662)	(9,227)	(3,969)	(7,709)	(21,567)
Costs incurred prior to audit period	(12,795)	-	-	-	(12,795)
Total ineligible costs	(19,586)	(27,776)	(20,979)	(22,680)	(91,021)
Overstated costs	(252)	(175)	(27,097)	-	(27,524)
Unsupported costs	(1,093)	-	-	-	(1,093)
Unclaimed costs	-	-	6,237	-	6,237
Audit adjustment	<u>\$ (20,931)</u>	<u>\$ (27,951)</u>	<u>\$ (41,839)</u>	<u>\$ (22,680)</u>	<u>\$ (113,401)</u>

Ineligible costs

The district claimed \$91,021 in ineligible costs as follows:

- Ineligible courtesy discounts – The district claimed \$56,659 for courtesy discounts for “travel beyond (the) nearest office.” The courtesy discount is included as a legal service charge on the attorney invoice, but is backed-out on the bottom invoice before the bill is tallied. Since the district did not incur this expense, it is not an allowable cost.
- Ineligible activities – The district claimed \$21,567 for its attorneys to provide general legal guidance and perform activities that are not collective bargaining-related. Examples of ineligible activities include researching and participating in budget meetings, drafting procedures for impasse proceeding, and analysis of board communications.

- Cost incurred prior to the audit period – For FY 2008-09, the district claimed \$12,795 in contract service costs incurred in May and June 2008, which is outside the audit period. We confirmed that costs incurred for May and June 2009 were also claimed for FY 2008-09, resulting in the district claiming 14 months of reimbursement for collective bargaining-related activities.

Overstated costs

The district claimed \$27,524 in overstated costs as follows:

- The district claimed 7.20 hours for FY 2008-09 and 5 hours for FY 2009-10 for attorney services at the maximum rate of \$135 per hour. The attorney invoices provided by the district report that the actual rate was \$100 per hour, resulting in an overstatement of \$252 for FY 2008-09 and \$175 for FY 2009-10.
- For FY 2010-11, the district claimed 416.88 hours for attorney services at the actual fee of \$200 per hour. The maximum reimbursement fee for contracted services is \$135 per hour, resulting in a \$27,097 overstatement.

Unsupported costs

For FY 2008-09, the district claimed 8.10 hours, totaling \$1,093, for side-table negotiations that are unsupported. The district claimed reimbursement of 618.73 hours, yet provided attorney invoices supporting 610.73 hours only.

Unclaimed costs

For FY 2010-11, the district did not claim \$6,237 in allowable attorney costs. The district incurred \$5,738 in attorney consulting fees for May and June 2011 and \$499 in attorney travel expenses for June 2011 that were not claimed. The district did not claim these costs because they were not paid until the following fiscal year; however, we confirmed that these fees were also not claimed for FY 2011-12. Reimbursement was limited to the attorney fee of \$135 per hour; therefore, the amount allowable does not tie directly to the amount invoiced by the attorney.

Component G4 – Impasse Proceedings

The district claimed \$311 in contract services for the Impasse Proceedings cost component. We found that \$2,471 is allowable. For FY 2009-10, the district did not claim 16 hours, totaling \$2,160, for its attorneys to participate in mediations with the Elk Grove Education Association (EGEA).

Component G6 – Contract Administration

The district claimed \$4,657 in contract services for the Contract Administration cost component. We found that \$13,297 is allowable. The district understated costs because it misclassified costs and under-claimed costs. In addition, the district claimed ineligible costs.

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

	Fiscal Year		Total
	2008-09	2009-10	
Ineligible costs	\$ (203)	\$ (2,970)	\$ (3,173)
Reclassified costs	10,463	-	10,463
Unclaimed costs	-	1,350	1,350
Audit adjustment	\$ 10,260	\$ (1,620)	\$ 8,640

Ineligible costs

The district claimed \$3,173 in ineligible costs as follows:

- For FY 2008-09, the district claimed 1.5 hours, totaling \$203, for its attorney to prepare a post-hearing brief for a collective-bargaining related grievance; however, the district did not incur this cost as it was backed-out of the total invoice fee as a “courtesy discount” provided by the firm. This cost was reclassified from salaries and benefits (see Finding 1).
- For FY 2009-10, the district claimed 22 hours, totaling \$2,970, for its attorney to participate in a personnel-related grievance, which is not allowable.

Reclassified costs

For FY 2008-09, the district incorrectly classified \$10,463 in attorney fees as a salary and benefit cost. Since the amount claimed is for an allowable activity, we reclassified this cost from salaries and benefits (see Finding 1) to the contract services cost element.

Unclaimed costs

For FY 2009-10, the district did not claim 10 hours, totaling \$1,350, for its attorneys to participate in collective bargaining-related grievances.

Component G7 – Unfair Labor Practice Charges

The district claimed \$38,841 in contract services for the Unfair Labor Practice Charges cost component. We found that \$35,790 is allowable and \$3,051 is allowable. The costs are unallowable because the district claimed ineligible and unsupported costs and under-claimed costs.

The following table summarizes the audit adjustments for the Unfair Labor Practice Charges cost component by fiscal year:

	Fiscal Year		Total
	2008-09	2009-10	
Unsupported	\$ -	\$ (3,010)	\$ (3,010)
Ineligible costs	(446)	-	(446)
Unclaimed costs	405	-	405
Audit adjustment	<u>\$ (41)</u>	<u>\$ (3,010)</u>	<u>\$ (3,051)</u>

Unsupported costs

For FY 2009-10, the district claimed \$3,010 in unsupported costs. The district claimed 63.80 hours for its attorneys to provide legal guidance for CSEA unfair labor practice charges, yet provided invoices totaling 41.5 hours only. The remaining 22.30 hours are unsupported.

Ineligible costs

For FY 2008-09, the district claimed 3.3 hours, totaling \$446, for courtesy discounts for “travel beyond (the) nearest office.” The courtesy discount is included as a legal service charge on the attorney invoice, but is backed-out on the bottom invoice before the bill is tallied. Since the district did not incur this expense, it is not an allowable cost.

Unclaimed costs

For FY 2008-09, the district did not claim 3 hours, totaling \$405, for its attorneys to provide legal guidance for unfair labor practice charges.

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 must identify the mandated functions performed.

FINDING 4— Unclaimed indirect costs for contract services

For FY 2008-09, the district did not claim indirect costs for contract services, totaling \$8,198. We determined allowable indirect costs by multiplying allowable contract services by the indirect cost rate claimed by the district, which agreed to the rate 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 direct costs (salaries and benefits, materials and supplies, contract services). The error occurred because the district followed the claiming instructions that inadvertently excluded contract services from the calculation of indirect costs. The claiming instructions have since been corrected.

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

	Fiscal Year 2008-09
Allowable contract services	\$ 193,346
Applied to allowable indirect cost rates	<u>4.24%</u>
Audit adjustment	<u>\$ 8,198</u>

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.

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