SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

Revised Audit Report

COLLECTIVE BARGAINING PROGRAM

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

July 1, 2003, through June 30, 2006

JOHN CHIANG
California State Controller

October 2012

JOHN CHIANG
California State Controller

October 8, 2012

Patrick W. Mullen, President
Board of Trustees
San Luis Obispo County Community College District
P.O. Box 8106
San Luis Obispo, CA 93403-8106

Dear Mr. Mullen:

The State Controller's Office audited the costs claimed by San Luis Obispo County Community College 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, 2003, through June 30, 2006.

This revised final report supersedes our previous report dated August 18, 2010. We revised the penalty for filing a late claim for fiscal year (FY) 2005-06 from 10% of claimed costs to 10% of allowable costs, with a maximum penalty of $10,000. As a result, we reduced the total penalty by $1,541, from $10,000 to $8,459.

The district claimed $448,863 ($458,863 less a $10,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that $375,816 is allowable ($384,275 less $8,459 in late filing penalty) and $73,047 is unallowable. The costs are unallowable because the district overstated salaries and benefits, misstated contract services, and understated indirect costs. The State paid the district $142,649. The State will pay allowable costs claimed, totaling $233,167, contingent upon available appropriations.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Toni Sommer
Assistant Superintendent/Vice President
San Luis Obispo County Community College District
Chris Green, Director of Fiscal Services
San Luis Obispo County Community College District
Christine Atalig, Auditor
Fiscal Services Unit
California Community Colleges Chancellor's Office
Ed Hanson, Principal Program Budget Analyst
Department of Finance
Jay Lal, Manager
Division of Accounting and Reporting
State Controller's Office

Contents

Revised Audit Report

Summary 1

Background 1

Objective, Scope, and Methodology 2

Conclusion 2

Views of Responsible Officials 3

Restricted Use 3

Revised Schedule 1—Summary of Program Costs 4

Revised Findings and Recommendations 6

Attachment—District's Response to Draft Audit Report

Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Luis Obispo County Community College 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, 2003, through June 30, 2006.

The district claimed $448,863 ($458,863 less a $10,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that $375,816 is allowable ($384,275 less a $8,459 in late filing penalties) and $73,047 is unallowable. The costs are unallowable because the district overstated salaries and benefits, misstated contract services, and understated indirect costs. The State paid the district $142,649. The State will pay allowable costs claimed, totaling $233,167, 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 Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives relating 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, requiring 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. Costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For claim 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 seven components of the Collective Bargaining Program are as follows:

G1–Determining bargaining units and exclusive representatives
G2–Election of unit representatives
G3–Costs of negotiations
G4–Impasse proceedings
G5–Collective bargaining agreement disclosure
G6–Contract administration
G7–Unfair labor practice costs

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on October 22, 1980, and last amended them on January 27, 2000. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Collective Bargaining Program for the period of July 1, 2003, through June 30, 2006.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the 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.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, San Luis Obispo County Community College District claimed $448,863 ($458,863 less a $10,000 penalty for filing a late claim) for costs of the Collective Bargaining Program. Our audit disclosed that $375,816 is allowable ($384,275 less $8,459 in late filing penalties) and $73,047 is unallowable.

For the FY 2003-04 claim, the State paid the district $123,995 from funds appropriated under Chapter 724, Statutes of 2010. Our audit disclosed that $123,995 is allowable.

For the FY 2004-05 claim, the State paid the district $17,654 from funds appropriated under Chapter 724, Statutes of 2010. Our audit disclosed that $174,688 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling $157,034, contingent upon available appropriations.

For the FY 2005-06 claim, the State made no payment to the district. Our audit disclosed that $76,133 is allowable. The State will pay that amount, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on July 30, 2008. Edralin J. Maduli, Vice President, Administrative Services, responded by letter dated August 19, 2008 (Attachment), agreeing with the audit results. We issued a final audit report on June 30, 2009.

Subsequently, we revised Finding 3 to recalculate allowable indirect cost rates for FY 2004-05 and FY 2005-06. To calculate allowable indirect costs for all fiscal years, we also corrected the amounts shown as total allowable increased costs to include allowable materials and supplies. As a result, we revised the understated indirect costs identified in Finding 3 from $28,779 to $38,832. We advised Chris Green, Director, Fiscal Services, of the revisions on July 14, 2010. Mr. Green concurred with the report revisions. We issued a revised final audit report on August 18, 2010.

This report revises the penalty for filing a late claim for FY 2005-06 from 10% of claimed costs to 10% of allowable costs, with a maximum penalty of $10,000. As a result, the total penalty decreased by $1,541, from $10,000 to $8,459. We advised Chris Green, Director of Fiscal Services, of the adjustment to the late filing penalty on September 5, 2012 via e-mail.

Restricted Use

This report is solely for the information and use of San Luis Obispo County Community College District, the California Department of Education, 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
Chief, Division of Audits

October 8, 2012

Revised Schedule 1—
Summary of Program Costs
July 1, 2003, through June 30, 2006

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 2003, through June 30, 2004				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	$ 35,070	$ 6,522	$ (28,548)	Finding 1
Materials and supplies	36	36	—	
Contracted services	25,057	18,188	(6,869)	Finding 2
Increased direct costs, G1 through G3	60,163	24,746	(35,417)	
Component activities G4 through G7:				
Salaries and benefits	43,812	14,964	(28,848)	Finding 1
Materials and supplies	158	158	—	
Contracted services	63,701	67,130	3,429	Finding 2
Increased direct costs, G4 through G7	107,671	82,252	(25,419)	
Total increased direct costs	167,834	106,998	(60,836)	
Indirect costs	11,268	17,997	6,729	Finding 3
Total program costs	$ 179,102	124,995	$ (54,107)	
Less amount paid by the State [2]		(124,995)		
Allowable costs claimed in excess of (less than) amount paid		$ —		
July 1, 2004, through June 30, 2005				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	$ 57,448	$ 35,606	$ (21,842)	Finding 1
Materials and supplies	164	164	—	
Contracted services	58,639	58,132	(507)	Finding 2
Increased direct costs, G1 through G3	116,251	93,902	(22,349)	
Component activities G4 through G7:				
Salaries and benefits	6,956	4,367	(2,589)	Finding 1
Contracted services	33,984	29,839	(4,145)	Finding 2
Increased direct costs, G4 through G7	40,940	34,206	(6,734)	
Total increased direct costs	157,191	128,108	(29,083)	
Indirect costs	19,977	46,580	26,603	Finding 3
Total program costs	$ 177,168	174,688	$ (2,480)	
Less amount paid by the State [2]		(17,654)		
Allowable costs claimed in excess of (less than) amount paid		$ 157,034		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 2005, through June 30, 2006				
Direct costs:				
Component activities G1 through G3:				
Salaries and benefits	$ 35,741	$ 21,313	$ (14,428)	Finding 1
Materials and supplies	59	59	—	
Contracted services	18,837	25,503	6,666	Finding 2
Increased direct costs, G1 through G3	54,637	46,875	(7,762)	
Component activities G4 through G7:				
Salaries and benefits	19,674	1,062	(18,612)	Finding 1
Materials and supplies	111	111	—	
Contracted services	10,762	13,635	2,873	Finding 2
Increased direct costs, G4 through G7	30,547	14,808	(15,739)	
Total increased direct costs	85,184	61,683	(23,501)	
Indirect costs	17,409	22,909	5,500	Finding 3
Subtotal	102,593	84,592	(18,001)	
Less late filing penalty [3]	(10,000)	(8,459)	1,541	
Total program costs	$ 92,593	76,133	$ (16,460)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 76,133		
Summary: July 1, 2003, through June 30, 2006				
Total increased direct costs	$ 410,209	$ 296,789	$ (113,420)	
Indirect costs	48,654	87,486	38,832	
Subtotal	458,863	384,275	(74,588)	
Less late filing penalty	(10,000)	(8,459)	1,541	
Total program costs	$ 448,863	375,816	$ (73,047)	
Less amount paid by the State		(142,649)		
Allowable costs claimed in excess of (less than) amount paid		$ 233,167		

[1] See the Findings and Recommendations section.

[2] Payment from funds appropriated under Chapter 724, Statutes for 2010 (Assembly Bill No. 1610).

[3] Government Code section 17568 limits the penalty for filing a late annual reimbursement claim after August 24, 2007, to 10% of allowable costs that exceed the amount filed by the initial filing deadline. The FY 2005-06 claim was filed on January 15, 2008, which was after the initial filing deadline.

Revised Findings and Recommendations

FINDING 1—Unallowable salaries and benefits

The district overstated salaries and benefits by $114,867 for the audit period.

- The district did not provide support for $82,373 in claimed salaries and benefits for the audit period. Specifically, the district claimed hours that were not traceable to source documents such as individual activity log sheets, meeting sign-in sheets, and/or time records, to validate employee hours charged.

- The district claimed $32,494 in costs that did not pertain to the mandate and are, therefore, not reimbursable.

The following table summarizes the unallowable salaries and benefits costs:

	Fiscal Year			
	2003-04	2004-05	2005-06	Total
Salaries and Benefits				
Component activities G1-G3:				
Unsupported hours	$ (16,904)	$ (12,342)	$ (10,226)	$ (39,472)
Ineligible costs	(11,644)	(9,500)	(4,202)	(25,346)
Total, component activities G1-G3	(28,548)	(21,842)	(14,428)	(64,818)
Component activities G4-G7:				
Unsupported hours	(28,848)	(2,589)	(11,464)	(42,901)
Ineligible costs	—	—	(7,148)	(7,148)
Total, component activities G4-G7	(28,848)	(2,589)	(18,612)	(50,049)
Audit adjustment	$ (57,396)	$ (24,431)	$ (33,040)	$(114,867)

The program's parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will be reimbursed only for the "increased costs" incurred. Government Code section 17514 states that "costs mandated by the State" means any increased costs that a school district is required to incur.

The parameters and guidelines also require the claimant to show the classification of the employees involved, the amount of time spent, and their hourly rate.

Recommendation

We recommend that the district ensure that all claimed costs are supported by appropriate documentation and allowable under the parameters and guidelines.

District's Response

The district agreed with the audit finding.

FINDING 2—Misstated contract services costs

The district understated contract services by $1,447 because it claimed $13,525 in unallowable costs and did not claim $14,972 in costs reimbursable under the mandate. The unallowable costs resulted from the following issues:

- The district did not provide support for $9,525 in claimed contract services costs for the audit period. The district did not provide source documents—such as detailed attorney invoices, vouchers, or time records indicating that the mandate activity was performed—to validate costs claimed.

- The district claimed unallowable online collective bargaining database costs of $4,000 in FY 2003-04. This expenditure is not a reimbursable activity listed in the parameters and guidelines and, therefore, is non-reimbursable.

The following table summarizes the contract services audit adjustment:

	Fiscal Year			
	2003-04	2004-05	2005-06	Total
Contract Services				
Component activities G1-G3:				
Unsupported costs	$ (2,869)	$ (507)	$ —	$ (3,376)
Ineligible costs	(4,000)	—	—	(4,000)
Unclaimed costs	—	—	6,666	6,666
Total, component activities G1-G3	(6,869)	(507)	6,666	(710)
Component activities G4-G7:				
Unsupported costs	(2,004)	(4,145)	—	(6,149)
Unclaimed costs	5,433	—	2,873	8,306
Total, component activities G4-G7	3,429	(4,145)	2,873	2,157
Audit adjustment	$ (3,440)	$ (4,652)	$ 9,539	$ 1,447

The parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will be reimbursed only for the "increased costs" incurred. Government Code section 17514 states that "costs mandated by the State" means any increased costs that a school district is required to incur.

Recommendation

We recommend that the district ensure that all claimed costs are supported by appropriate documentation and allowable under the parameters and guidelines.

District's Response

The district agreed with the audit finding.

FINDING 3—Understated indirect costs

The district understated indirect costs by $38,832 for the audit period because it omitted indirect costs on contract services and understated the allowable indirect cost rates.

The district omitted indirect costs on contract services because it followed the claiming instructions applicable for the audit period, which erroneously instructed the district to deduct contract services prior to computing indirect costs.

The district understated its indirect cost rates because it did not correctly compute the rates using Form FAM-29C. The district did not segregate direct and indirect costs in accordance with the State Controller's Office's (SCO) claiming instructions. The district also excluded depreciation expense for FY 2004-05 and FY 2005-06. We recomputed the indirect cost rates consistent with the claiming instructions.

The following table summarizes the audit adjustment:

	Fiscal Year			
	2003-04	2004-05	2005-06	Total
Total allowable increased costs	$ 106,998	$ 128,108	$ 61,683	
Allowable indirect cost rate	× 16.82%	× 36.36%	× 37.14%	
Allowable indirect cost	17,997	46,580	22,909	$ 87,486
Less claimed indirect costs	(11,268)	(19,977)	(17,409)	(48,654)
Audit adjustment	$ 6,729	$ 26,603	$ 5,500	$ 38,832

For FY 2003-04, the SCO's claiming instructions state:

> A community college has the option of using a federally approved rate, utilizing the cost accounting principles from Office of Management and Budget Circular A-21 "Cost Principles for Educational Institutions," or the Controller's methodology [FAM-29C]. . . .

For FY 2004-05 forward, the SCO's claiming instructions state:

> A CCD [community college district] may claim indirect costs using the Controller's methodology (FAM-29C). . . . If specifically allowed by a mandated program's P's & G's [parameters and guidelines], a district may alternately choose to claim indirect costs using either (1) a federally approved rate prepared in accordance with Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*; or (2) a flat 7% rate.

Recommendation

We recommend that the district calculate its indirect cost rates in accordance with the SCO's claiming instructions.

District's Response

The district agreed with the audit finding.

SCO's Comment

Subsequent to our final audit report issued June 30, 2009, we revised the allowable indirect cost rates for FY 2004-05 and FY 2005-06. Our original calculations excluded allowable depreciation expense. In addition, we corrected the amounts shown as total allowable increased costs to include allowable materials and supplies. As a result, we revised the understated indirect costs from $28,779 to $38,832. Our recommendation is unchanged. The district agreed with the report revisions.

Attachment—
District's Response to
Draft Audit Report

CUESTA COLLEGE

SAN LUIS OBISPO COUNTY COMMUNITY COLLEGE DISTRICT

Where Lifelong Learning Happens

August 19, 2008

Jim L. Spano
Mandated Cost Audits Bureau
Controller's Office
Division of Audits
PO Box 942850
Sacramento, CA 94250-5874

Re: Audit of Collective Bargaining Program

Dear Mr. Spano:

I have reviewed the draft audit report for costs claimed by San Luis Obispo Community College District for the legislatively mandated Collective Bargaining Program for the period of July 1, 2003 through June 30, 2006. I have provided responses to the three findings below.

Finding 1 - Unallowable salaries and benefits

The Districts concurs. The District is in the process of implementing a tracking system for documenting claimable hours under the parameters and guidelines. We have asked our mandated costs consultant to provide a workshop detailing what is allowable and what documentation we need to provide.

Finding 2 – Misstated contract services costs

The District concurs. It appears some of the backup documentation has been lost in storage. Past practice was to pull the invoices for creating the claims and then returning the invoices to the accounts payable files. The District will keep copies of any documentation provided in creating the claims. All supporting documentation will be kept together with a copy of claim. The documentation will include any attorney invoices, vouchers, or time records. The District will no longer claim the cost of our online collective bargaining database because the program is not used exclusively for bargaining.

Finding 3 – Understated Indirect Costs

The District concurs. The District will no longer deduct the contract services prior to computing indirect costs and will follow the claiming instructions provided by the State Controller's Office.

Please find attached the signed management representation letter. If you have any questions, please contact me at (805) 546-3120 or Chris Green at (805) 546-3902.

Sincerely,

Edralin J. Maduli
Vice President, Administrative Services

EM:cg

Attachment

cc: Chris Green, Director, Fiscal Services

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

http://www.sco.ca.gov

S08-MCC-001