



JOHN CHIANG
California State Controller

February 5, 2010

Vinod K. Sharma
Controller-Treasurer
Santa Clara County
County Government Center, East Wing
70 West Hedding Street, 2nd Floor
San Jose, CA 95110

Dear Mr. Sharma:

The State Controller's Office (SCO) reviewed the costs claimed by Santa Clara County for the legislatively mandated Animal Adoption Program (Chapter 752, Statutes of 1998, and Chapter 313, Statutes of 2004) for the period of July 1, 2001, through June 30, 2003, and July 1, 2006, through June 30, 2007. Our review was limited to validating employees' productive hourly rates.

The county claimed \$411,633 for the mandated program. Our review disclosed that \$387,126 is allowable and \$24,507 is unallowable. The costs are unallowable because the county overstated employees' productive hourly rates, as described in the attached Summary of Program Costs and Finding and Recommendation.

For the fiscal year (FY) 2001-02 claim, the State made no payment to the county. Our review disclosed that \$52,098 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2002-03 claim, the State made no payment to the county. Our review disclosed that \$198,874 is allowable. The State will pay that amount, contingent upon available appropriations.

For the FY 2006-07 claim, the State paid the county \$146,206. Our review disclosed that \$136,154 is allowable. The State should offset \$10,052 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

If you disagree with the review finding, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at www.csm.ca.gov/docs/IRCForm.pdf.

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

Attachments

RE: S10-MCC-904

cc: Ram Venkatesan, SB-90 Coordinator
Controller-Treasurer Department
Santa Clara County
Jeff Carosone, Principal Program Budget Analyst
Cor-Gen Unit, Department of Finance
Ginny Brummels, Manager
Division of Accounting and Reporting
State Controller's Office

**Attachment 1—
Summary of Program Costs
July 1, 2001, through June 30, 2003, and
July 1, 2006, through June 30, 2007**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Review</u>	<u>Review Adjustment</u> ¹
<u>July 1, 2001, through June 30, 2002</u>			
Direct costs:			
Salaries	\$ 18,802	\$ 17,044	\$ (1,758)
Benefits	6,543	5,931	(612)
Materials and supplies	9,870	9,870	—
Total direct costs	35,215	32,845	(2,370)
Indirect costs	21,239	19,253	(1,986)
Total program costs	<u>\$ 56,454</u>	52,098	<u>\$ (4,356)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 52,098</u>	
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Salaries	\$ 47,508	\$ 43,617	\$ (3,891)
Benefits	18,295	16,797	(1,498)
Materials and supplies	10,128	10,128	—
Contract services	75,530	75,530	—
Total direct costs	151,461	146,072	(5,389)
Indirect costs	57,512	52,802	(4,710)
Total program costs	<u>\$ 208,973</u>	198,874	<u>\$ (10,099)</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 198,874</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries	\$ 40,601	\$ 37,296	\$ (3,305)
Benefits	24,573	22,573	(2,000)
Materials and supplies	22,721	22,721	—
Total direct costs	87,895	82,590	(5,305)
Indirect costs	58,311	53,564	(4,747)
Total program costs	<u>\$ 146,206</u>	136,154	<u>\$ (10,052)</u>
Less amount paid by the State		(146,206)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (10,052)</u>	

Attachment 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Review</u>	<u>Review Adjustment</u> ¹
<u>Summary: July 1, 2001, through June 30, 2003, and July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries	\$ 106,911	\$ 97,957	\$ (8,954)
Benefits	49,411	45,301	(4,110)
Materials and supplies	42,719	42,719	—
Contract services	75,530	75,530	—
Total direct costs	274,571	261,507	(13,064)
Indirect costs	137,062	125,619	(11,443)
Total program costs	<u>\$ 411,633</u>	387,126	<u>\$ (24,507)</u>
Less amount paid by the State		(146,206)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 240,920</u>	

¹ See Attachment 2, Finding and Recommendation.

**Attachment 2—
Finding and Recommendation
July 1, 2001, through June 30, 2003,
and July 1, 2006, through June 30, 2007**

**FINDING—
Overstated productive
hourly rates**

The county claimed unallowable costs totaling \$24,507. The costs are unallowable because the county overstated employees' productive hourly rates. The county included unallowable deductions for training time and break time in its calculation of countywide average annual productive hours.

Unallowable Training Hour Deduction

The county deducted training hours from regular hours worked to calculate countywide average annual productive hours. The deduction is unallowable because the county did not provide documentation substantiating the training hours that it deducted. In addition, the deducted training hours include training that benefits specific programs or employee classifications.

For fiscal year (FY) 2001-02, the county deducted estimated training time based on hours required by employees' bargaining unit agreements and/or continuing education requirements for licensure/certification rather than actual training hours attended. Furthermore, deducted training hours benefit specific departments' employee classifications rather than those employee classifications common to all departments.

For FY 2002-03 forward, the county's payroll system includes a training code to track employees' training hours. The county stated that employees charged time to the training code when they attended non-program-related training. It stated that employees charge time to this code for the following training:

1. Training required by employees' bargaining unit agreements, training for licensure/certification requirements, and continuing education for specific job classifications such as attorneys, probation officers, real estate property appraisers, physicians, and nurses
2. California Commission on Peace Officer Standards and Training (POST) training for law enforcement personnel
3. County-required training such as new employee orientation, supervisory training, safety seminars, and software classes

The county did not provide documentation substantiating the training hours that it deducted. Items 1 and 2 above identify training hours that pertain to specific programs or employee classifications. As such, it is inappropriate to deduct these hours when calculating countywide average annual productive hours.

While it might be appropriate to deduct some training hours identified in item 3 above, the county did not:

- Separately identify and provide supporting documentation for these training hours.
- Provide documentation showing that it required the training for all county employees.
- Provide documentation showing that employees did not otherwise charge the training time to specific programs.

Unallowable Break Time Deduction

The county also deducted employee break time from regular hours worked to calculate countywide average annual productive hours. The deduction is unallowable because the county deducted “authorized” break time rather than actual break time taken. The county’s accounting system did not consistently limit daily hours reported to 7.5 hours worked or otherwise reflect actual break time taken. In addition, actual mandated program employee timesheets show that employees did *not* exclude “authorized” break time when reporting hours worked. Furthermore, when calculating the break time deduction for average annual productive hours, the county did not address employees who work alternate work schedules. Duplicate reimbursed hours result when employees charge their full workday to program activities, yet the county identifies 0.5 hours daily as nonproductive time in its calculation of countywide average annual productive hours.

The following table summarizes claimed and allowable productive hours for each fiscal year:

	Fiscal Year		
	2001-02	2002-03	2006-07
Claimed productive hours (A)	1,546.00	1,580.46	1,537.00
Break time	112.08	112.97	110.58
Training time	47.38	28.07	25.66
Allowable productive hours (B)	<u>1,705.46</u>	<u>1,721.50</u>	<u>1,673.24</u>
Review adjustment to productive hours ((A) – (B)) ÷ (B))	<u>(9.35)%</u>	<u>(8.19)%</u>	<u>(8.14)%</u>

Attachment 3 provides detailed calculations of the review adjustment, which the following table summarizes:

	Fiscal Year			Total
	2001-02	2002-03	2006-07	
Salaries	\$ (1,758)	\$ (3,891)	\$ (3,305)	\$ (8,954)
Benefits	(612)	(1,498)	(2,000)	(4,110)
Total direct costs	(2,370)	(5,389)	(5,305)	(13,064)
Indirect costs	(1,986)	(4,710)	(4,747)	(11,443)
Review adjustment	<u>\$ (4,356)</u>	<u>\$ (10,099)</u>	<u>\$ (10,052)</u>	<u>\$ (24,507)</u>

The program's parameters and guidelines state, "All costs claimed must be traceable to source documents and/or worksheets that show evidence of and the validity of such costs."

Recommendation

We recommend that the county:

- Modify its payroll system to accumulate only those training hours applicable to county-required training attended by all county employees.
- Deduct only actual break time taken by all county employees. If the county does not wish to track actual break time taken, it is permissible to absorb break time into the activity that the employee performs immediately before or after the break.
- Maintain documentation that supports both training time and break time that it deducts from regular hours worked to calculate countywide average annual productive hours.

Attachment 3— Calculation of Review Adjustment

Fiscal Year	(1) (2) (3) (4) Actual Costs Claimed				(5) Adjustment to Productive Hours	(6) (7) (8) Review Adjustment			(9) Total
	Salaries	Benefits	Indirect Cost Rate ¹	Indirect Costs		Salaries ([Col. (1) × Col. (5)])	Benefits ([Col. (2) × Col. (5)])	Indirect Costs ([Col. (4) × Col. (5)])	
2001-02	\$ 18,802	\$ 6,543	83.80%	\$ 21,239	(9.35)%	\$ (1,758)	\$ (612)	\$ (1,986)	\$ (4,356)
2002-03	47,508	18,295	87.40%	57,512	(8.19)%	(3,891)	(1,498)	(4,710)	(10,099)
2006-07	40,601	24,573	89.47%	58,311	(8.14)%	(3,305)	(2,000)	(4,747)	(10,052)
Review adjustment						<u>\$ (8,954)</u>	<u>\$ (4,110)</u>	<u>\$ (11,443)</u>	<u>\$ (24,507)</u>

¹ Indirect cost rate applied to salaries and benefits.