

# SixTen and Associates

## Mandate Reimbursement Services

KEITH B. PETERSEN, President  
3270 Arena Blvd. Suite 400-363  
Sacramento, CA 95834  
Telephone: (916) 419-7093  
Fax: (916) 263-9701

E-Mail: Kbpsixten@aol.com  
5252 Balboa Avenue, Suite 900  
San Diego, CA 92117  
Telephone: (858) 514-8605  
Fax: (858) 514-8645

February 3, 2011

Drew Bohan, Executive Director  
Commission on State Mandates  
980 Ninth Street, Suite 300  
Sacramento, CA 95814



Re: CSM 09-4425-I-17  
Incorrect Reduction Claim  
Collective Bargaining-REVISED  
Fiscal Years: 2002-03 through 2005-06

Dear Mr.Bohan:

Enclosed is the original and two copies of the above referenced REVISED incorrect reduction claim for Sierra Joint Community College District.

SixTen and Associates has been appointed by the District as its representative for this matter and all interested parties should direct their inquiries to me, with a copy as follows:

Kerri Hester, Director of Finance  
Sierra Joint Community College District  
5000 Rocklin Road  
Rocklin, CA 95677

Sincerely,

A handwritten signature in cursive script, appearing to read "Keith B. Petersen".

Keith B. Petersen

# COMMISSION ON STATE MANDATES

## 1. REVISED INCORRECT REDUCTION CLAIM TITLE

961/75 Collective Bargaining

Original Incorrect No. 09-4425-I-17

## 2. CLAIMANT INFORMATION

Sierra Joint Community College District

Kerri Hester, Director of Finance  
Sierra Joint Community College District  
5000 Rocklin Road  
Rocklin, CA 95677  
Voice: 916-660-7603  
Fax: 916-630-4504  
E-mail: khester@sierracollege.edu

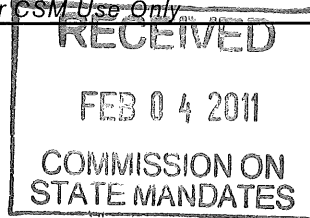
## 3. CLAIMANT REPRESENTATIVE INFORMATION

Claimant designates the following person to act as its sole representative in this incorrect reduction claim. All correspondence and communications regarding this claim shall be forwarded to this representative. Any change in representation must be authorized by the claimant in writing, and sent to the Commission on State Mandates.

Keith B. Petersen  
SixTen and Associates  
3270 Arena Blvd., Suite 400-363  
Sacramento, California 95834  
Voice: (916) 419-7093  
Fax: (916) 263-9701  
E-mail: kbpsixten@aol.com

For CSM Use Only

Filing Date:



IRC #: 10-4425-I-18

## 4. IDENTIFICATION OF STATUTES OR EXECUTIVE ORDERS

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

## 5. AMOUNT OF INCORRECT REDUCTION

Fiscal Year	REVISED Amount of Reduction
2002-03	\$12,116
2003-04	\$0
2004-05	\$0
2005-06	\$0
TOTAL:	\$12,116

## 6. NOTICE OF NO INTENT TO CONSOLIDATE

This claim is not being filed with the intent to consolidate on behalf of other claimants.

Sections 7-9 are attached as follows:

7. Written Detailed Narrative: Pages 1 to 15

8. SCO Results of Review Letters: Exhibit A

9. Controller's Revised Audit Report: Exhibit B

## 10. CLAIM CERTIFICATION

This claim alleges an incorrect reduction of a reimbursement claim filed with the State Controller's Office pursuant to Government Code section 17561. This incorrect reduction claim is filed pursuant to Government Code section 17551, subdivision (d). I hereby declare, under penalty of perjury under the laws of the State of California, that the information in this incorrect reduction claim submission is true and complete to the best of my own knowledge or information or belief.

Kerri Hester, Director of Finance

Kerri G. Hester  
Signature

1/31/11  
Date

1 Claim Prepared by:  
2 Keith B. Petersen  
3 SixTen and Associates  
4 3270 Arena Blvd., Suite 400-363  
5 Sacramento, California 95834  
6 Voice: (916) 419-7093  
7 Fax: (916) 263-9701  
8 E-mail: kbpsixten@aol.com

9  
10 BEFORE THE  
11 COMMISSION ON STATE MANDATES  
12 STATE OF CALIFORNIA

12 **REVISED**  
13 INCORRECT REDUCTION CLAIM OF: ) No. CSM 09-4425-I-17\_  
14 )  
15 ) Chapter 961, Statutes of 1975  
16 ) Chapter 1213, Statutes of 1991  
17 **SIERRA JOINT** )  
18 ) **Collective Bargaining**  
19 **Community College District** )  
20 ) Annual Reimbursement Claims:  
21 Claimant. )  
22 ) Fiscal Year 2002-03  
23 ) Fiscal Year 2003-04  
24 ) Fiscal Year 2004-05  
25 ) Fiscal Year 2005-06

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26 INCORRECT REDUCTION CLAIM FILING  
27 PART I. AUTHORITY FOR THE CLAIM

28 The Commission on State Mandates has the authority, pursuant to Government  
29 Code Section 17551(d), to "hear and decide upon a claim by a local agency or school  
30 district filed on or after January 1, 1985, that the Controller has incorrectly reduced  
31 payments to the local agency or school district pursuant to paragraph (2) of subdivision  
32 (d) of Section 17561." Sierra Joint Community College District (hereinafter "District" or  
33 "Claimant") is a school district as defined in Government Code Section 17519. Title 2,  
34 CCR, Section 1185(a), requires the claimant to file an incorrect reduction claim with the

**REVISED** Incorrect Reduction Claim of Sierra Joint Community College District  
961/75 Collective Bargaining

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1 Commission.

2 Original Incorrect Reduction Claim

3 The Controller issued the original final audit report on April 17, 2009. The District  
4 submitted an incorrect reduction claim on August 3, 2009. By letter dated August 10,  
5 2009, the Commission on State Mandates notified the District that the incorrect  
6 reduction claim was received and accepted for filing.

7 Revised Incorrect Reduction Claim

8 The Controller issued a “revised” final audit report on August 25, 2010. The  
9 revised final audit report is attached as Exhibit “B.” The revised audit report constitutes  
10 a new and separate demand for repayment and an adjudication of the claim. The  
11 District also received audit report adjustment letters dated September 9, 2010, for all  
12 four fiscal years, and a “results of review” letter dated September 5, 2010, for FY 2002-  
13 03, all of which are notices of payment action. Copies of these letters are attached as  
14 Exhibit “A.”

15 The Controller’s revised audit report transmittal letter states that the District may  
16 file an amended incorrect reduction claim if the District disagrees with the audit findings.  
17 There is no other dispute resolution process. Title 2, CCR, Section 1185 (b), requires  
18 incorrect reduction claims to be filed no later than three years following the date of the  
19 Controller’s action. There are no regulations specific to “revised” incorrect reduction  
20 claims, but the District infers the same three-year period of limitations would be  
21 applicable for filing a “revised” incorrect reduction claim in response to a “revised” audit

**REVISED** Incorrect Reduction Claim of Sierra Joint Community College District  
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report. Thus, this “revised” incorrect reduction claim is timely filed.

**PART II. SUMMARY OF THE CLAIM**

The Controller conducted a field audit of the District’s annual reimbursement claims for the District’s actual costs of complying with the legislatively mandated Collective Bargaining program (Chapter 961, Statutes of 1975; Chapter 1213, Statutes of 1991), for the period July 1, 2002, through June 30, 2006.

Original Final Audit Report Dated April 17, 2009

As a result of the original audit, the Controller determined that \$17,971 of the \$803,036 claimed costs were unallowable:

<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Audit Adjustment</u>	<u>SCO Payments</u>	<u>Amount Due &lt;State&gt; District</u>
2002-03	\$322,166	\$17,971	\$322,166	<\$17,971>
2003-04	\$234,496	\$0	\$0	\$234,496
2004-05	\$ 84,769	\$0	\$0	\$84,769
2005-06	<u>\$161,605</u>	<u>\$0</u>	<u>\$0</u>	<u>\$161,605</u>
Totals	\$803,036	\$17,971	\$322,166	\$462,899

The audit report stated that the District was paid \$322,166 for these claims and that \$462,899 is due to the District.

Revised Audit Report Dated August 25, 2010

As a result of the revised audit, the Controller determined that \$12,116 of the \$803,036 claimed costs were unallowable:

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**REVISED Incorrect Reduction Claim of Sierra Joint Community College District  
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	<u>Fiscal Year</u>	<u>Amount Claimed</u>	<u>Audit Adjustment</u>	<u>SCO Payments</u>	<u>Amount Due &lt;State&gt; District</u>
1					
2					
3	2002-03	\$322,166	\$12,116	\$304,195	\$ 5,855
4	2003-04	\$234,496	\$0	\$0	\$234,496
5	2004-05	\$ 84,769	\$0	\$0	\$ 84,769
6	2005-06	<u>\$161,605</u>	<u>\$0</u>	<u>\$0</u>	<u>\$161,605</u>
7	Totals	\$803,036	\$12,116	\$304,195	\$486,725

8 The audit report states that the District was paid \$304,195 for these claims and that  
9 \$486,725 is due to the District.

10 **PART III. PREVIOUS INCORRECT REDUCTION CLAIMS**

11 The District filed a previous incorrect reduction claim for this mandate program  
12 on August 3, 2009, in response to the original audit report dated April 17, 2009. This  
13 previous incorrect reduction claim is pending Commission action. This “revised”  
14 incorrect reduction claim incorporates that incorrect reduction claim in its entirety and  
15 supplements that claim to the extent that the findings of the revised final audit report  
16 differ from the original final audit report.

17 **PART IV. BASIS FOR REIMBURSEMENT**

18 No change.

19 **PART V. STATE CONTROLLER CLAIM ADJUDICATION**

20 The Controller conducted an audit of the District’s annual reimbursement claims  
21 for Fiscal Years 2002-03, 2003-04, 2004-05, and 2005-06. The revised audit report  
22 dated August 25, 2010, concluded that \$790,920 of the District’s costs claimed were

1 allowable. A copy of the revised audit report is attached as Exhibit "B."

2 VI. CLAIMANT'S RESPONSE TO THE STATE CONTROLLER

3 No draft revised audit report or other written notice of the pending revised audit  
4 findings was provided to the District. This incorrect reduction claim is the District's  
5 response.

6 PART VII. STATEMENT OF THE ISSUES

7 **Finding 1-- Unallowable salaries and benefits**

8 The original report eliminated \$14,489 in direct costs and \$4,938 in related  
9 indirect costs as unallowable salary and benefit costs. The revised audit report  
10 excluded the reference to indirect cost effect. The District agrees that this does not  
11 affect the direct cost adjustment or the issues presented in the original incorrect  
12 reduction claim.

13 **Finding 2 -- Unallowable Contract Services Costs Claimed**

14 No change.

15 **Finding 3-- Understated indirect cost rates**

16 The revised audit report finds that the District understated indirect costs  
17 because the District did not obtain federal approval for the indirect cost rate used for FY  
18 2002-03 and FY 2003-04, and did not correctly compute the FAM-29 C indirect cost  
19 rate for FY 2004-05 and FY 2005-06. The understated amount in the original audit  
20 report finding was \$94,818. The revised audit report increases the understated amount  
21 by \$8,214 to \$103,032. The revised audit report (p.14) states:

**REVISED Incorrect Reduction Claim of Sierra Joint Community College District  
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“Subsequent to our final audit report issued April 17, 2009, we revised the allowable indirect cost rates for FY 2004-05 and FY 2005-06. Our original calculations excluded allowable depreciation expense. As a result, we revised the understated indirect costs from \$94,818 to \$103,032. We also corrected the FY 2002-03 unallowable indirect costs shown in Schedule 1. Our previous final audit report identified FY 2002-03 indirect costs adjustments in both Findings 1 and 3, and incorrectly calculated the combined effect of the two findings.”

The District agrees that the correction to the indirect cost rate made by the revised audit report does not mitigate any of the issues raised in the original incorrect reduction claim.

**Indirect Cost Rates Claimed and Audited**

	As		As		Revised	Net
<u>Fiscal Year</u>	<u>Claimed</u>	<u>Difference</u>	<u>Audited</u>	<u>Difference</u>	<u>Audit</u>	<u>Difference</u>
2002-03	35.00%	<13.94%>	21.06%	0	21.06%	<13.94%>
2003-04	39.15%	< 16.99%>	22.16%	0	22.16%	<16.99%>
2004-05	40.90%	< 9.60%>	31.30%	3.96%	35.26%	< 5.64%>
2005-06	35.70%	< 0.73%>	34.97%	3.97%	38.94%	3.24%

The indirect cost rates calculated by the District are more consistent from year-to-year and recognize capital costs in the fiscal years incurred. The District rates are reasonable and not excessive. The revised audited indirect cost rates for FY 2002-03 and FY 2003-04, where the Controller recognizes neither capital costs nor depreciation expenses, are significantly different (about 40% less) than the claimed rate. The revised audited indirect cost rates for FY 2004-05 and FY 2005-06, where the Controller recognizes depreciation expenses, vary less than the two prior years (3% to 6%), which



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1 indicates the accounting timing differences between the CCFS-311 capital costs used  
2 by the District and financial statement depreciation expenses used by the Controller.

3 Because the Controller's method of utilizing depreciation expenses in lieu of  
4 CCFS-311 capital costs is also a reasonable method, the District does not dispute that  
5 choice of methods for FY 2004-05 and FY 2005-06 and will utilize that method in future  
6 annual claims to insure consistency. The District still disputes the audit findings for FY  
7 2002-03 and FY 2003-04 because neither capital costs nor depreciation expenses are  
8 allowed by Controller policy.

9 **OTHER ISSUES**

10 **Amount Paid by The State**

11 This issue was not an audit finding. The payments received from the state are  
12 an integral part of the reimbursement calculation. The original and revised audit reports  
13 changed the payment amount received for FY 2002-03 without a finding in the revised  
14 audit report.

15 Fiscal Year of Annual Claim

16 <u>Amount Paid by the State</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2005-06</u>	<u>2005-06</u>
17 As Claimed	\$ 0	\$ 0	\$ 0	\$ 0
18 Original Audit Report	\$322,166	\$ 0	\$ 0	\$ 0
19 Revised Audit Report	\$304,195	\$ 0	\$ 0	\$ 0

20 The propriety of this adjustment cannot be determined until the Controller states the  
21 reason for the change.

1 **Limit on audited costs**

2           The revised audit report deducts from its findings of "total program costs" the  
3 amounts of \$20,662 for FY 2003-04, \$23,853 for FY 2004-05, and \$54,244 for FY  
4 2005-06, as "less allowable costs that exceed cost claimed." The stated basis for this  
5 limitation on allowable costs is Government Code Section 17561[(d)(3)], cited in  
6 footnote 2 on page 6 of the audit report that states, "that the State will not reimburse  
7 any claim more than one year after the filing deadline." The State has not reimbursed,  
8 that is, made payment on these claims, so that citation does not appear relevant.  
9 Section 17561 (and Section 17568 for late claims) pertains to the timely filing of an  
10 annual claim in order to be eligible for payment, not to the contents of the claim itself.

11           There is no Government Code Section cited that prohibits the Controller from  
12 reimbursement of *audited* costs in excess of claimed costs. Government Code Section  
13 17561(d)(2), as amended by Statutes of 2002, Chapter 1124, effective September 30,  
14 2002, states:

15           "[T]he Controller (A) may audit the records of any local agency or school district  
16 to verify the actual amount of the mandated costs . . . and (C) shall adjust the  
17 payment to correct for any underpayments or overpayments which occurred in  
18 previous fiscal years."

19           The use of the word "shall" makes the adjustment of *both* underpayments and  
20 overpayments mandatory. Thus, the Controller does not have the discretion to  
21 unilaterally determine that it will deny reimbursement for audit adjustments in favor of  
22 the State and simply ignore audit adjustments in favor of the claimants. The Controller,

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1 therefore, has the obligation to pay claimants any unclaimed allowable mandate cost  
2 discovered as the result of an audit.

3 **Statute of limitation for audit**

4 The District asserts that the three-year statute of limitations to commence an  
5 audit for FY 2002-03 expired before the audit entrance conference. The clause in  
6 Government Code Section 17558.5 that delays the commencement of the time for the  
7 Controller to audit to the date of initial payment is void because it is impermissibly  
8 vague. Therefore, the only specific and enforceable time limitation for audit and  
9 adjustment of these claims is three years from the date of filing. The District also  
10 asserts that the revised audit for all four fiscal years was beyond the statute of  
11 limitations when the revised audit was commenced and the revised audit report was  
12 issued on August 25, 2010.

13 Claim Action Dates

14	January 15, 2004	FY 2002-03 annual claim filed by the District
15	January 10, 2005	FY 2003-04 annual claim filed by the District
16	January 17, 2006	FY 2004-05 annual claim filed by the District
17	December 21, 2006	FY 2005-06 annual claim filed by the District
18	January 15, 2007	FY 2002-03 statute of limitations for audit expires
19	April 17, 2007	Audit entrance conference
20	January 10, 2008	FY 2003-04 statute of limitations for audit expires
21	January 17, 2009	FY 2004-05 statute of limitations for audit expires

**REVISED** Incorrect Reduction Claim of Sierra Joint Community College District  
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- 1 April 17, 2009 Original final audit report issued
- 2 December 21, 2009 FY 2005-06 statute of limitations for audit expires
- 3 August 25, 2010 Revised audit report issued

4 Applicable Time Limitation for Audit

5 Prior to January 1, 1994, no statute specifically governed the statute of  
6 limitations for audits of mandate reimbursement claims. Statutes of 1993, Chapter 906,  
7 Section 2, operative January 1, 1994, added Government Code Section 17558.5 to  
8 establish for the first time a specific statute of limitations for audit of mandate  
9 reimbursement claims:

10 “(a) A reimbursement claim for actual costs filed by a local agency or school  
11 district pursuant to this chapter is subject to audit by the Controller no later than  
12 four years after the end of the calendar year in which the reimbursement claim is  
13 filed or last amended. However, if no funds are appropriated for the program for  
14 the fiscal year for which the claim is made, the time for the Controller to initiate  
15 an audit shall commence to run from the date of initial payment of the claim.”

16 Thus, there are two standards. A funded claim is “subject to audit” for four years after  
17 the end of the calendar year in which the claim was filed. An unfunded claim must have  
18 its audit initiated within four years of first payment.

19 Statutes of 1995, Chapter 945, Section 13, operative July 1, 1996, repealed and  
20 replaced Section 17558.5, changing only the length of the period of limitations:

21 “(a) A reimbursement claim for actual costs filed by a local agency or school  
22 district pursuant to this chapter is subject to audit by the Controller no later than  
23 two years after the end of the calendar year in which the reimbursement claim is  
24 filed or last amended. However, if no funds are appropriated for the program for  
25 the fiscal year for which the claim is made, the time for the Controller to initiate  
26 an audit shall commence to run from the date of initial payment of the claim.”

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1 Statutes of 2002, Chapter 1128, Section 14.5, operative January 1, 2003,  
2 amended Section 17558.5 to state:

3 “(a) A reimbursement claim for actual costs filed by a local agency or school  
4 district pursuant to this chapter is subject to the initiation of an audit by the  
5 Controller no later than three years after the ~~end of the calendar year in which~~  
6 the date that the actual reimbursement claim is filed or last amended, whichever  
7 is later. However, if no funds are appropriated or no payment is made to a  
8 claimant for the program for the fiscal year for which the claim is ~~made~~ filed, the  
9 time for the Controller to initiate an audit shall commence to run from the date of  
10 initial payment of the claim.”

11 The annual reimbursement claim for FY 2002-03 is subject to the three-year statute of  
12 limitations established by Chapter 1128, Statutes of 2002 which requires the audit to be  
13 “initiated” within three years of the date the actual claim is filed.

14 The amendment is pertinent because this is the first time that the factual issue of  
15 the date the audit is “initiated” is introduced for mandate programs for which funds are  
16 appropriated. This amendment also means that it is impossible for the claimant to know  
17 when the statute of limitations will expire at the time the claim is filed, which is contrary  
18 to the purpose of a statute of limitations. It allows the Controller’s own unilateral delay,  
19 or failure to make payments from funds appropriated for the purpose of paying the  
20 claims, to control the tolling of the statute of limitations, which is also contrary to the  
21 purpose of a statute of limitations.

22 Statutes of 2004, Chapter 890, Section 18, operative January 1, 2005, amended  
23 Section 17558.5 to state:

24 “(a) A reimbursement claim for actual costs filed by a local agency or school  
25 district pursuant to this chapter is subject to the initiation of an audit by the

**REVISED** Incorrect Reduction Claim of Sierra Joint Community College District  
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1           Controller no later than three years after the date that the actual reimbursement  
2           claim is filed or last amended, whichever is later. However, if no funds are  
3           appropriated or no payment is made to a claimant for the program for the fiscal  
4           year for which the claim is filed, the time for the Controller to initiate an audit  
5           shall commence to run from the date of initial payment of the claim. In any case,  
6           an audit shall be completed not later than two years after the date that the audit  
7           is commenced.”

8           The annual reimbursement claims for the FY 2003-04, FY 2004-05, and FY 2005-06  
9           are subject to this version of Section 17558.5, which retains the same limitations period  
10          as the prior version, but also adds the requirement that an audit must be completed  
11          within two years of its commencement. *Note that since the original audit report dated*  
12          *April 17, 2009, was issued exactly two years and one day after the entrance conference*  
13          *conducted on April 17, 2007, the original audit was not timely completed and all of the*  
14          *findings for FY 2003-04, FY 2004-05, and FY 2005-06 are void.*

15          Vagueness

16          The two versions of Government Code Section 17558.5 applicable to the four  
17          annual reimbursement claims provide that the time limitation for audit “shall commence  
18          to run from the date of initial payment” if no payment is made. However, this provision is  
19          void because it is impermissibly vague. At the time a claim is filed, the claimant has no  
20          way of knowing when payment will be made or how long the records applicable to that  
21          claim must be maintained. The current four billion-dollar backlog in mandate payments,  
22          which continues to grow every year, could potentially require claimants to maintain  
23          detailed supporting documentation for decades.

24          Therefore, the only specific and enforceable time limitation to commence an

**REVISED Incorrect Reduction Claim of Sierra Joint Community College District  
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1 audit is three years from the date the claim was filed. The annual reimbursement  
2 claims for FY 2002-03, FY 2003-04, and FY 2004-05 were past this time period when  
3 the original audit report was issued April 17, 2009. Therefore, all adjustments from the  
4 original audit for these three fiscal years are void and should be withdrawn.

5 The new findings of the revised audit report appear to have been initiated as a  
6 result of the original incorrect reduction claim filed on August 3, 2009. However, the  
7 revised audit was not noticed to the District until the revised audit report was published  
8 on August 25, 2010, which is more than three years after the last annual claim was filed  
9 (FY 2005-06 filed on December 21, 2006). Clearly, the Controller did not initiate these  
10 new findings during the statutory period allowed to initiate the audit for all four fiscal  
11 years that are the subject of this audit. Further, the date of the revised audit report is  
12 more than two years after the commencement of the original audit. Notwithstanding,  
13 the changes made by the Controller in the revised audit report are for substantive  
14 reasons that are now a matter of record for the original incorrect reduction claim and  
15 can be adjudicated by the Commission.

16 **PART VIII. RELIEF REQUESTED**

17 The District filed its annual reimbursement claims within the time limits  
18 prescribed by the Government Code. The amounts claimed by the District for  
19 reimbursement of the costs of implementing the program imposed by Chapter 961,  
20 Statutes of 1975 (the "Rodda Act"), and Chapter 10.7, Division 4, of Title 1 of the  
21 Government Code (commencing with Section 3540), represent the actual costs incurred

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1 by the District to carry out this program. These costs were properly claimed pursuant to  
2 the Commission's parameters and guidelines. Reimbursement of these costs is  
3 required under Article XIII B, Section 6 of the California Constitution. The Controller  
4 denied reimbursement without any basis in law or fact. The District has met its burden  
5 of going forward on this claim by complying with the requirements of Section 1185, Title  
6 2, California Code of Regulations. Because the Controller has enforced and is seeking  
7 to enforce these adjustments without benefit of statute or regulation, the burden of  
8 proof is now upon the Controller to establish a legal basis for these actions.

9 The District requests that the Commission make findings of fact and law on each  
10 and every adjustment made by the Controller and each and every procedural and  
11 jurisdictional issue raised in this claim, and order the Controller to correct the audit  
12 report findings therefrom.

13 /

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**JOHN CHIANG**  
 California State Controller  
 Division of Accounting and Reporting

September 9, 2010

The Honorable Barbara Vineyard  
 President, Board of Trustees  
 Sierra Joint Community College District  
 5000 Rocklin Road  
 Rocklin, CA95677

Re: Collective Bargaining, Fiscal Year 2002/2003

Dear Dr. Hall:

Please be advised that the reimbursement claim filed for the above state mandated program was adjusted per our Division of Audits' letter dated August 25, 2010, as follows:

CLAIMED AMOUNT.....	\$ 322,166.00
CLAIM ADJUSTMENTS	
Field Audit.....	( 12,116.00)
Prior Payments (Ref. MA62182A dated 10/30/2006) .....	(322,166.00)
Prior Collections.....	<u>17,971.00</u>
TOTAL AMOUNT DUE FROM STATE.....	<u>\$ 5,855.00</u>

If you have any questions regarding the above adjustment, please contact Gwen Carlos at (916) 324-2341, or email at [GCarlos@sco.ca.gov](mailto:GCarlos@sco.ca.gov).

Sincerely,

JAY LAL, Manager  
 Local Reimbursement Section

JL/AL/gc

RECEIVED  
 SEP 16 2010  
 SIERRA COLLEGE  
 SUPERINTENDENT/PRESIDENT



JOHN CHIANG  
 California State Controller  
 Division of Accounting and Reporting  
 SEPTEMBER 5, 2010

CC31090  
 00232  
 2010/09/05

BOARD OF TRUSTEES  
 SIERRA JOINT COMM COLL DIST  
 PLACER COUNTY  
 5000 ROCKLIN RD  
 ROCKLIN CA 95677

DEAR CLAIMANT:

RE: COLLECTIVE BARGAINING (CC)

WE HAVE REVIEWED YOUR 2002/2003 FISCAL YEAR REIMBURSEMENT CLAIM FOR THE MANDATED COST PROGRAM REFERENCED ABOVE. THE RESULTS OF OUR REVIEW ARE AS FOLLOWS:

AMOUNT CLAIMED	322,166.00
TOTAL ADJUSTMENTS (DETAILS BELOW)	5,855.00
TOTAL PRIOR PAYMENTS (DETAILS BELOW)	-322,166.00
AMOUNT DUE CLAIMANT	\$ 5,855.00

IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT GWEN CARLOS AT (916) 324-2341 OR IN WRITING AT THE STATE CONTROLLER'S OFFICE, DIVISION OF ACCOUNTING AND REPORTING, P.O. BOX 942850, SACRAMENTO, CA 94250-5875. DUE TO INSUFFICIENT APPROPRIATION, THE BALANCE DUE WILL BE FORTHCOMING WHEN ADDITIONAL FUNDS ARE MADE AVAILABLE.

ADJUSTMENT TO CLAIM:

PRIOR COLLECTIONS	17,971.00	
FIELD AUDIT FINDINGS	- 12,116.00	
TOTAL ADJUSTMENTS		5,855.00
PRIOR PAYMENTS:		
SCHEDULE NO. MA62182A		
PAID 10-30-2006	-322,166.00	
TOTAL PRIOR PAYMENTS		-322,166.00

SINCERELY,

*Ginny Brummels*  
 GINNY BRUMMELS, MANAGER

LOCAL REIMBURSEMENT SECTION  
 P.O. BOX 942850 SACRAMENTO, CA 94250-5875



**JOHN CHIANG**  
 California State Controller  
 Division of Accounting and Reporting

September 9, 2010

The Honorable Barbara Vineyard  
 President, Board of Trustees  
 Sierra Joint Community College District  
 5000 Rocklin Road  
 Rocklin, CA95677

Re: Collective Bargaining, Chapter 961/75  
Program 232, Fiscal Year 2003/2004

Dear Dr. Hall:

Please be advised that the reimbursement claim filed for the above state mandated program was adjusted per our Division of Audits' letter dated August 25, 2010, as follows:

CLAIMED AMOUNT.....	\$ 234,496.00
CLAIM ADJUSTMENT	
Field Audit.....	( 0.00)
TOTAL AMOUNT DUE FROM STATE.....	<u>\$ 234,496.00</u>

If you have any questions regarding the above adjustment, please contact Gwen Carlos at (916) 324-2341, or email at [GCarlos@sco.ca.gov](mailto:GCarlos@sco.ca.gov).

Sincerely,

JAY LAL, Manager  
 Local Reimbursement Section

JL/AL/gc

RECEIVED  
 SEP 16 2010  
 SIERRA COLLEGE  
 SUPERINTENDENT/PRESIDENT



**JOHN CHIANG**  
 California State Controller  
 Division of Accounting and Reporting

September 9, 2010

The Honorable Barbara Vineyard  
 President, Board of Trustees  
 Sierra Joint Community College District  
 5000 Rocklin Road  
 Rocklin, CA95677

Re: Collective Bargaining, Chapter 961/75  
Program 232, Fiscal Year 2004/2005

Dear Dr. Hall:

Please be advised that the reimbursement claim filed for the above state mandated program was adjusted per our Division of Audits' letter dated August 25, 2010, as follows:

CLAIMED AMOUNT.....	\$ 84,769.00
CLAIM ADJUSTMENT	
Field Audit.....	( 0.00)
TOTAL AMOUNT DUE FROM STATE.....	<u>\$ 84,769.00</u>

If you have any questions regarding the above adjustment, please contact Gwen Carlos at (916) 324-2341, or email at [GCarlos@sco.ca.gov](mailto:GCarlos@sco.ca.gov).

Sincerely,

JAY LAL, Manager  
 Local Reimbursement Section

JL/AL/gc

RECEIVED  
 SEP 16 2010  
 SIERRA COLLEGE  
 SUPERINTENDENT/PRESIDENT



**JOHN CHIANG**  
 California State Controller  
 Division of Accounting and Reporting

September 9, 2010

The Honorable Barbara Vineyard  
 President, Board of Trustees  
 Sierra Joint Community College District  
 5000 Rocklin Road  
 Rocklin, CA95677

Re: Collective Bargaining, Chapter 961/75  
Program 232, Fiscal Year 2005/2006

Dear Dr. Hall:

Please be advised that the reimbursement claim filed for the above state mandated program was adjusted per our Division of Audits' letter dated August 25, 2010, as follows:

CLAIMED AMOUNT.....	\$ 161,605.00
CLAIM ADJUSTMENT	
Field Audit.....	( 0.00)
TOTAL AMOUNT DUE FROM STATE.....	<u>\$ 161,605.00</u>

If you have any questions regarding the above adjustment, please contact Gwen Carlos at (916) 324-2341, or email at [GCarlos@sco.ca.gov](mailto:GCarlos@sco.ca.gov).

Sincerely,

JAY LAL, Manager  
 Local Reimbursement Section

JL/AL/gc

RECEIVED  
 SEP 16 2010  
 SIERRA COLLEGE  
 SUPERINTENDENT/PRESIDENT





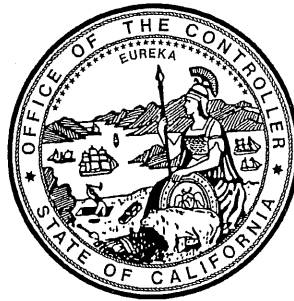
# **SIERRA JOINT COMMUNITY COLLEGE DISTRICT**

Revised Audit Report

## **COLLECTIVE BARGAINING PROGRAM**

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

*July 1, 2002, through June 30, 2006*



**JOHN CHIANG**  
California State Controller

August 2010



JOHN CHIANG  
California State Controller

August 25, 2010

The Honorable Barbara Vineyard  
President, Board of Trustees  
Sierra Joint Community College District  
5000 Rocklin Road  
Rocklin, CA 95677

Dear Ms. Vineyard:

The State Controller's Office audited the costs claimed by the Sierra Joint 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, 2002, through June 30, 2006.

This revised final report supersedes our previous report dated April 17, 2009. We revised Finding 3 to correct errors in the allowable indirect cost rate calculations for fiscal year (FY) 2004-05 and FY 2005-06. We also revised Finding 1 to exclude the audit adjustment for related indirect costs and identified total unallowable indirect costs in Finding 3. As a result, allowable costs increased by \$5,855 for the audit period.

The district claimed \$803,036 for the mandated program. Our audit disclosed that \$790,920 is allowable and \$12,116 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs, and understated allowable indirect costs. The State paid the district \$304,195. Allowable costs claimed exceed the amount paid by \$486,725.

The district previously filed an Incorrect Reduction Claim (IRC) on August 4, 2009. The district may file an amended IRC with the Commission on State Mandates (CSM) based on this revised audit report. 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 CSM's Web site link at [www.csm.ca.gov/docs/IRCForm.pdf](http://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/sk:vb

cc: Kerri Hester, Director of Finance  
Sierra Joint Community College District  
Doug Smith  
Vice President, Finance and Administration  
Sierra Joint Community College District  
Christine Atalig, Auditor  
Fiscal Services Unit  
California Community Colleges Chancellor's Office  
Thomas Todd, Principal Program Budget Analyst  
Education Systems Unit  
Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

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# Revised Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the Sierra Joint 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, 2002, through June 30, 2006.

The district claimed \$803,036 for the mandated program. Our audit disclosed that \$790,920 is allowable and \$12,116 is unallowable. The costs are unallowable because the district claimed unsupported and ineligible costs, and understated allowable indirect costs. The State paid the district \$304,195. Allowable costs claimed exceed the amount paid by \$486,725.

## 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, 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.

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. 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, 2002, 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.

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by generally accepted government auditing standards. However, the district declined our request.

## **Conclusion**

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

For the audit period, the Sierra Joint Community College District claimed \$803,036 for costs of the Collective Bargaining Program. Our audit disclosed that \$790,920 is allowable and \$12,116 is unallowable. The State paid the district \$304,195. The State will pay allowable costs that exceed the amount paid, totaling \$486,725, contingent upon available appropriations.

**Views of  
Responsible  
Official**

We issued a draft audit report on June 9, 2008. Joyce Lopes, the former Director of Finance, responded by letter dated July 3, 2008 (Attachment). The district stated that it disagrees with the unsupported costs in Finding 1 and the adjustments in Finding 3. The district also stated that it does not dispute the audit results for Findings 1 and 2.

We issued a final audit report on April 17, 2009. Subsequently, we revised Finding 3 to recalculate allowable indirect cost rates for FY 2004-05 and FY 2005-06. We also revised Finding 1 to exclude the audit adjustment for related indirect costs and identified total unallowable indirect costs in Finding 3. As a result, we revised the understated indirect costs identified in Finding 3 from \$94,818 to \$103,032. We advised Kerri Hester, Director of Finance, of the revisions on August 13, 2010.

**Restricted Use**

This report is solely for the information and use of the Sierra Joint Community College District, 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

August 25, 2010

**Revised Schedule 1—  
Summary of Program Costs  
July 1, 2002, through June 30, 2006**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Components G1 through G3:				
Salaries and benefits	\$ 94,116	\$ 82,008	\$ (12,108)	Finding 1
Contracted services	118,172	118,172	—	
Subtotals	212,288	200,180	(12,108)	
Less adjusted base-year direct costs	(24,870)	(24,870)	—	
Increased direct costs, G1 through G3	187,418	175,310	(12,108)	
Components G4 through G7:				
Salaries and benefits	56,371	51,748	(4,623)	Finding 1
Contracted services	30,955	29,055	(1,900)	Finding 2
Increased direct costs, G4 through G7	87,326	80,803	(6,523)	
Total increased direct costs	274,744	256,113	(18,631)	
Indirect costs	47,422	53,937	6,515	Finding 3
Total program costs	\$ 322,166	310,050	\$ (12,116)	
Less amount paid by the State		(304,195)		
Allowable costs claimed in excess of (less than) amount paid		\$ 5,855		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Components G1 through G3:				
Salaries and benefits	\$ 61,353	\$ 61,353	\$ —	
Contracted services	125,164	125,164	—	
Subtotals	186,517	186,517	—	
Less adjusted base-year direct costs	(25,777)	(25,777)	—	
Increased direct costs, G1 through G3	160,740	160,740	—	
Components G4 through G7:				
Salaries and benefits	19,642	19,642	—	
Contracted services	28,490	28,490	—	
Increased direct costs, G4 through G7	48,132	48,132	—	
Total increased direct costs	208,872	208,872	—	
Indirect costs	25,624	46,286	20,662	Finding 3
Subtotal	234,496	255,158	20,662	
Less allowable costs that exceed costs claimed <sup>2</sup>	—	(20,662)	(20,662)	
Total program costs	\$ 234,496	234,496	\$ —	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 234,496		



**Revised Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Components G1 through G3:				
Salaries and benefits	\$ 24,892	\$ 26,920	\$ 2,028	Finding 1
Contracted services	42,214	42,214	—	
Subtotals	67,106	69,134	2,028	
Less adjusted base-year direct costs	(26,933)	(26,933)	—	
Increased direct costs, G1 through G3	40,173	42,201	2,028	
Components G4 through G7:				
Salaries and benefits	7,742	7,956	214	Finding 1
Contracted services	30,149	30,149	—	
Increased direct costs, G4 through G7	37,891	38,105	214	
Total increased direct costs	78,064	80,306	2,242	
Indirect costs	6,705	28,316	21,611	Finding 3
Subtotal	84,769	108,622	23,853	
Less allowable costs that exceed costs claimed <sup>2</sup>	—	(23,853)	(23,853)	
Total program costs	<u>\$ 84,769</u>	<u>84,769</u>	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 84,769</u>		
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Components G1 through G3:				
Salaries and benefits	\$ 31,294	\$ 31,294	\$ —	
Contracted services	118,720	118,720	—	
Subtotals	150,014	150,014	—	
Less adjusted base-year direct costs	(29,314)	(29,314)	—	
Increased direct costs, G1 through G3	120,700	120,700	—	
Components G4 through G7:				
Salaries and benefits	3,892	3,892	—	
Contracted services	30,762	30,762	—	
Increased direct costs, G4 through G7	34,654	34,654	—	
Total increased direct costs	155,354	155,354	—	
Indirect costs	6,251	60,495	54,244	Finding 3
Subtotal	161,605	215,849	54,244	
Less allowable costs that exceed costs claimed <sup>2</sup>	—	(54,244)	(54,244)	
Total program costs	<u>\$ 161,605</u>	<u>161,605</u>	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 161,605</u>		

## Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>Summary: July 1, 2002, through June 30, 2006</u>				
Total increased direct costs	\$ 717,034	\$ 700,645	\$ (16,389)	
Indirect costs	<u>86,002</u>	<u>189,034</u>	<u>103,032</u>	
Subtotal	803,036	889,679	86,643	
Less allowable costs that exceed costs claimed <sup>2</sup>	<u>—</u>	<u>(98,759)</u>	<u>(98,759)</u>	
Total program costs	<u>\$ 803,036</u>	790,920	<u>\$ (12,116)</u>	
Less amount paid by the State		<u>(304,195)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 486,725</u>		

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

<sup>2</sup> Government Code section 17561 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2003-04, FY 2004-05, and FY 2005-06.

# Revised Findings and Recommendations

**FINDING 1—  
Unallowable salaries  
and benefits**

The district claimed unallowable salaries and benefits totaling \$14,489 for the audit period.

We made the audit adjustment based on the following issues:

- The district reported inaccurate productive hourly rates totaling \$6,944 for fiscal year (FY) 2002-03 and FY 2004-05.
- The district claimed mandate-related hours totaling \$4,468 for FY 2002-03 that did not agree with hours it documented by time records.
- The district claimed ineligible contract administration costs related to attendance at a conference totaling \$3,077 for FY 2002-03.

The following table summarizes the unallowable salaries and benefits, and related indirect costs:

	Fiscal Year		Total
	2002-03	2004-05	
Components G1-G3:			
Incorrect productive hourly rate	\$ (7,865)	\$ 2,028	\$ (5,837)
Unsupported hours	(4,243)	—	(4,243)
Total, components G1-G3	(12,108)	2,028	(10,080)
Components G4-G7:			
Incorrect productive hourly rates	(1,321)	214	(1,107)
Unsupported hours	(225)	—	(225)
Ineligible hours	(3,077)	—	(3,077)
Total, components G4-G7	(4,623)	214	(4,409)
Audit adjustment	\$ (16,731)	\$ 2,242	\$ (14,489)

The program’s parameters and guidelines state that the district will be reimbursed for the “increased costs” incurred as a result of compliance with the mandate. 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 state that reimbursable contract administration includes adjudication of contract disputes, enforcement of the contract, and training on the negotiated contract. Time spent by employees attending personal development programs, conferences, and workshops is not reimbursable.

Recommendation

We recommend that the district ensure that all costs claimed are allowable and properly supported.

## District's Response

### Audit report format errors

The district response identified audit report format errors in which the narrative amounts presented in the finding do not reconcile to the individual amounts presented in the findings' table. In addition, the district offered the following specific comments on the finding:

The District does not dispute this finding at this time.

Finding 1 eliminates \$14,489 as unallowable salary and benefits costs with \$4,938 in related indirect costs, for a total adjustment of \$19,427. The direct cost disallowed of \$14,489 consists of three amounts:

- \$6,944 disallowed due to "inaccurate productive hourly rates";
- \$4,468 disallowed due to hours claimed "that did not agree with hours documented"; and,
- \$3,077 as unallowable costs claimed.

Note that none of the adjustments were made because the costs claimed were excessive or unreasonable.

### Productive Hourly Rates

The draft audit report asserts that inaccurate productive hourly rates were reported, resulting in costs that were overstated by \$9,186 for FY 2002-03 and understated by \$2,242 for FY 2004-05, leaving a net audit adjustment of \$6,944. The claims submitted by the district include a list of productive hourly rates for each employee by mandate component. The Controller's productive hourly rate calculation for several employees used different productive hours and benefit rates. The calculations will be reviewed and any continuing dispute will be the subject of the District's incorrect reduction claim.

### "Unsupported Hours" Claimed

The draft audit report asserts \$4,468 for "undocumented" salaries and benefits. The documentation deficiencies are characterized in the auditor's detailed workpapers as: "undocumented"; "couldn't find"; "duplicate hours"; "contract interpretation"; "could not locate"; "per [employee's] log"; "addition error?"; and, "didn't sign."

The District concurs that claimed staff time must be documented, but does not concur with the adjustments because the audit report does not provide evidence in support of the qualitative decision the auditor made to disallow specific staff time. In other words, there is no evidence of why the auditor concluded that the costs were insufficiently supported.

The parameters and guidelines essentially require claimants to “show” or “indicate” the costs claimed. While everyone involved in the mandate reimbursement process can regret the imprecision of these instructions, these instructions do not require as a specific condition of reimbursement that claimants provide the individual activity log sheets or time records the Controller has established after the fact as an audit requirement. Instead, the parameters and guidelines specify a “worksheet” supporting the calculation of hourly rates and benefits. The District has complied with the parameters and guidelines by supplying the Controller with worksheets supporting the costs claimed.

#### Unallowable Activities Claimed

The audit disallows \$3,077 claimed for two District administrators to attend a personnel manager’s conference (ACHRO). The District does not dispute this finding at this time.

#### SCO’s Comment

Subsequent to our final audit report issued April 17, 2009, we revised Finding 1 to exclude the audit adjustment for related indirect costs. We identify total unallowable indirect costs in Finding 3. Our recommendation is unchanged. The revision does not affect issues that the district discussed in its draft audit report response or the remainder of our comments below.

#### **Audit Report Format Errors**

The total adjustment identified in the table agrees with the total adjustment identified in the narrative. However, as pointed out in the district’s response to the draft report, the description of the first two lines under Components G1-G3, “Unsupported hours” and “Incorrect productive hourly rates” were switched in error and a \$33 adjustment for unsupported hours under Components G4-G7 was identified in error in the table as ineligible hours. The final report has been updated to eliminate these errors.

#### **Productive Hourly Rates**

The district’s response did not provide any specific objection to this issue.

#### **Unsupported Hours Claimed**

The district believes that worksheets provided with the mandated claims are adequate documentation in support of claimed costs in accordance with the parameters and guidelines. However, Government Code section 17561, subdivision (d)(2), states that the Controller may audit the records of any local agency or school district to verify the actual amount of the mandated costs and may reduce any claim that the Controller determines is excessive and/or unreasonable. The worksheets provided by the district did not support actual costs incurred.

In submitting its FY 2002-03 mandate claim, the district completed Form CB-2, which identified annual hours individual employees spent on reimbursable mandated activities. The district also provided documentation used to report the hours. The submitted documentation did not support 55.4 hours claimed. The unsupported hours were due to the following:

<u>Reason for Unsupported Hours</u>	<u>Hours</u>
Mathematical errors	24.2
Hours not traced to Individual Activity Time Log used to support reported hours	19.3
Meeting minutes showed employee was absent	5.5
Duplicated hours claimed	3.0
Employee's name was not on meeting sign-in sheet	1.6
Agenda did not support hours reported	1.0
No documentation submitted	0.8
Total unsupported hours	<u>55.4</u>

**Unallowable Activities Claimed**

As noted in the district's response, it did not dispute this adjustment.

**FINDING 2—  
Unallowable contracted  
services costs**

The district claimed unallowable mediator costs totaling \$1,900 for FY 2002-03.

The following table summarizes the contract services audit adjustment:

<u>Contract Services</u>	<u>Fiscal Year 2002-03</u>
Component G6: Mediator costs	\$ (1,900)
Total, component activity G6	<u>\$ (1,900)</u>

The program's parameters and guidelines state that costs of the mediator related to impasse proceedings is not reimbursed.

Recommendation

We recommend that the district ensure that only eligible claim components are reported for reimbursement.

District's Response

The district does not dispute this finding at this time.

SCO's Comment

The finding and recommendation are unchanged.

**FINDING 3—  
Understated indirect  
costs**

The district understated allowable indirect costs by \$103,032 for the audit period.

The district developed indirect cost rate proposals (ICRPs) in accordance with Office of Management and Budget (OMB) Circular A-21, (Title 2, Code of Federal Regulations, Part 220). The SCO's claiming instructions allow the district to use a federally-approved rate prepared in accordance with OMB Circular A-21. However, the district did not obtain federal approval for its ICRPs.

We calculated allowable indirect costs based on the SCO's Form FAM-29C methodology allowed by the parameters and guidelines and the SCO's claiming instructions. We applied the allowable indirect cost rates to allowable direct costs according to the SCO's claiming instructions. The calculated FAM-29C indirect cost rates did not support the rates claimed.

The district applied its indirect cost rates to salaries and benefits. However, the FAM-29C methodology uses total direct costs as the base to calculate indirect cost rates. Therefore, we applied the FAM-29C indirect cost rates to total allowable increased direct costs.

The following table summarizes the understated indirect costs:

	Fiscal Year				Total
	2002-03	2003-04	2004-05	2005-06	
Total allowable increased direct costs	\$256,113	\$208,872	\$ 80,306	\$155,354	
Allowable indirect cost rate	× 21.06%	× 22.16%	× 35.26%	× 38.94%	
Allowable indirect costs	53,937	46,286	28,316	60,495	\$ 189,034
Less claimed indirect costs	(47,422)	(25,624)	(6,705)	(6,251)	(86,002)
Audit adjustment	\$ 6,515	\$ 20,662	\$ 21,611	\$ 54,244	\$ 103,032

The parameters and guidelines state, "Indirect costs may be claimed in the manner described by the State Controller in his claiming instructions."

For FY 2002-03 and FY 2003-04, the SCO's claiming instructions state:

A 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 [FAM-29C] methodology. . . .

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 [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 claim indirect costs based on indirect cost rates computed in accordance with the SCO's claiming instructions. The district must obtain federal approval when it prepares ICRPs in accordance with OMB Circular A-21. Alternatively, the district should prepare its ICRPs using the SCO's Form FAM-29C methodology.

### District's Response

The Controller asserts that the District understated its indirect cost rates in the amount of \$6,515 for FY 2002-03, \$20,662 for FY 2003-04, \$18,431 for FY 2004-05, and \$49,210 for FY 2005-06. The understatement results from two sources other than the \$4,938 in allowable salaries and benefits from Finding 1.

#### Depreciation and Capital Costs

The first difference in methods is depreciation expense. The District included the CCSF-11 [*sic*] capital costs in the allocation of overhead costs for all four fiscal years. The Controller did not, but beginning FY 2004-05, the Controller's calculation includes depreciation expense (which are amortized capital costs) and the variance in claimed and audited rate declines.

The draft audit report states:

The district developed indirect cost rate proposals (IRCPs) based on Office of Management and Budget (OMB) Circular A-21 methodology. However, the district did not obtain federal approval for its IRCPs. Therefore, we calculated indirect cost rates using the alternative methodology (FAM-29C) allowed by the SCO's claiming instructions. The calculated FAM-29C indirect cost rates did not support the rates claimed.

The audit report asserts that the District must obtain federal approval when it prepares ICRPs in accordance with OMB Circular A-21. Neither the Commission nor the Controller has ever specified the federal agencies which have the authority to "approve" indirect cost rates. The parameters and guidelines also allow for calculation of the indirect cost rates using the Controller's FAM-29C. The correct forms were used and the claimed amounts were entered at the correct locations.

Both the District's method and the Controller's FAM-29C method utilize the same source document, the CCFS-311 annual financial and budget report required by the State. The difference in the claimed and audited methods is the determination of which of those cost elements are direct costs and which are indirect costs. Indeed, federally "approved" rates that the Controller will accept without further action are "negotiated" rates calculated by the District and submitted for approval, indicating that the process is not an exact science, but rather a determination of the relevance and reasonableness of the costs allocation assumptions made for the method used.



Government Code Section 17561(d)(2) requires the Controller to pay claims, provided that the Controller may audit the records of any school district to verify the actual amount of the mandated costs, and may reduce any claim that the Controller determines is excessive or unreasonable. The Controller is not authorized to simply recalculate the indirect cost rate using its own preferred method, without making the determination that the claimed rate is excessive or unreasonable. In this case, the only determination the Controller made was that the District's rate wasn't federally approved. The District has computed its indirect cost rate utilizing cost accounting principles from the Office of Management and Budget Circular A-21, and the draft audit report has disallowed it without a determination of whether the product of the District's calculation would, or would not, be excessive, unreasonable, or inconsistent with cost accounting principles.

#### Contract Services

The second difference in method is the treatment of contract services costs. The District applied the indirect cost rate to salaries and benefits. The draft audit report indicates that the Controller's calculation includes contract services. This is the primary source of the unclaimed allowable costs of \$91,247 (FY 2003-04 \$20,662; FY 2004-05 \$21,375; and FY 2005-06 \$49,210). The audit identified these allowable costs but does not include them in the amount to be reimbursed.

The Controller dismisses these unclaimed costs in footnote (2) on page 6 of the draft audit report:

Government Code 17561 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2003-04, FY 2004-05, and FY 2005-06.

This statement is both inaccurate and irrelevant to the issue. The correct citation to Government Code Section 17561(d)(3) is:

In no case may a reimbursement claim be paid if *submitted* more than one year after the filing deadline specified in the Controller's claiming instructions on funded mandates (Emphasis added)

The District is not submitting a new claim for these costs. The findings are the result of the Controller's audit. Further, Government Code Section 17561(d)(2) states:

. . . the Controller (A) may audit (i) the records of any local agency or school district to verify the actual amount of the mandated costs, . . . and (C) shall adjust the payment to correct for any underpayments or overpayments that occurred in previous fiscal years.

The use of the word "shall" makes the adjustment of *both* underpayments and overpayments mandatory. Thus, the Controller does not have the discretion to unilaterally determine that it will require reimbursement for audit adjustments in favor of the State and simply ignore audit adjustments in favor of the claimants. The Controller, therefore, has the obligation to pay claimants any unclaimed allowable mandate costs it discovers as a result of an audit.

### SCO's Comment

Subsequent to our draft audit report, we modified the finding by adding additional information from the parameters and guidelines and the SCO's claiming instructions.

Subsequent to our final audit report issued April 17, 2009, we revised the allowable indirect cost rates for FY 2004-05 and FY 2005-06. Our original calculations excluded allowable depreciation expense. As a result, we revised the understated indirect costs from \$94,818 to \$103,032. We also corrected the FY 2002-03 unallowable indirect costs shown in Schedule 1. Our previous final audit report identified FY 2002-03 indirect cost adjustments in both Findings 1 and 3, and incorrectly calculated the combined effect of the two findings.

Our finding previously stated that the parameters and guidelines do not allow districts to use a federally approved rate for FY 2004-05 and FY 2005-06; we deleted this language. In addition, we clarified that the FAM-29C methodology uses total direct costs as the base to calculate indirect cost rates. We also revised our recommendation, which previously stated, "The district must obtain federal approval when it prepares ICRPs in accordance with OMB Circular A-21 for FY 2003-04 and prior years." We deleted the phrase, "for FY 2003-04 and prior years." The revisions do not affect issues that the district discussed in its draft audit report response or the remainder of our comments below.

The CSM and Controller are not responsible for identifying the district's responsible federal agency. OMB Circular A-21 states:

[Cognizant agency responsibility] is assigned to the Department of Health and Human Services (HHS) or the Department of Defense's Office of Naval Research (DOD), normally depending on which of the two agencies (HHS or DOD) provides the more funds to the educational institution for the most recent three years. . . . In cases where neither HHS nor DOD provides Federal funding to an educational institution, the cognizant agency assignment shall default to HHS.

Government Code section 17558.5 requires the district to file a reimbursement claim for actual mandate-related costs. Government Code section 17561, subdivision (d)(2), allows the SCO to audit the district's records to verify actual mandate-related costs and reduce any claim that the SCO determines is excessive or unreasonable. In addition, Government Code section 12410 states, "The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provisions of law for payment." Therefore, the district's contention that the SCO is authorized to reduce a claim only if it determines the claim to be excessive or unreasonable is without merit.

However, the SCO did, in fact, conclude that the district's indirect cost rates were excessive. "Excessive" is defined as "exceeding what is usual, proper, necessary, or normal. . . . Excessive implies an amount or degree too great to be reasonable or acceptable. . . ." <sup>1</sup> The district did not obtain federal approval of its ICRPs for the applicable fiscal years. We calculated indirect cost rates using the alternate methodology identified in SCO claiming instructions. This alternate method did not support the rates that the district claimed; thus, the rates claimed were excessive.

Government Code section 17561, subdivision (d)(3), does allow reimbursement claims to be reimbursed if submitted more than one year after the filing deadline. However, only the total costs included in the initial or amended claim may be reimbursed within one year of the filing deadline. Section 17561, subdivision (d)(2), allows the SCO to adjust the payment to correct for any underpayments or overpayments based on allowable costs claimed.

<sup>1</sup> Merriam-Webster's Collegiate Dictionary, Tenth Edition, © 2001.

#### **OTHER ISSUE— Statutes of limitations**

In its response to the draft audit report, the district addressed an issue related to SCO's authority to audit FY 2002-03 claims within the statute of limitations.

#### District's Issue

This was not an audit finding. The District's FY 2002-03 claim was submitted to the Controller's Office on January 15, 2004. Pursuant to Government Code Section 17558.5, this claim is subject to the initiation of an audit only until January 15, 2007. The Controller's audit was not initiated until April 2007. Therefore, audit or adjustment of the claim for FY 2002-03 is barred by the statute of limitations.

#### SCO's Comment

Government Code section 17558.5, subdivision (a), in effect for the audit period states that a reimbursement claim for actual costs filed by a community college district for this mandate is subject to the initiation of an audit by the SCO no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the SCO to initiate an audit shall commence to run from the date of initial payment of the claim.

The district filed its initial FY 2002-03 claims on January 15, 2004, and received the initial claim payment on October 30, 2006. Therefore, this claim was subject to the initiation of an SCO audit until October 30, 2009. The SCO conducted an audit entrance conference on April 17, 2007. Therefore, the SCO initiated an audit within the period that the claim was subject to audit.

**Attachment—  
District's Response to  
Draft Audit Report**

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# SIERRA COLLEGE

*At Sierra College We Facilitate Learning, Inspire Change and Build Community*

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

July 3, 2008

Mr. Jim L. Spano, Chief  
Mandated Costs Audits Bureau  
California State Controller  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250-5874

Re: Sierra Joint Community College District  
Chapter 961, Statutes of 1975  
Collective Bargaining  
Fiscal Years 2002-03, 2003-04, 2004-05, and 2005-06

Dear Mr. Spano:

This letter is the response of Sierra Joint Community College District to the letter of Jeffrey V. Brownfield, dated June 9, 2008, and received by the District on June 20, 2008, which transmits a draft copy of your audit report of the District's Collective Bargaining annual reimbursement claims, for the period of July 1, 2002 through June 30, 2006.

#### **Audit Report Format Errors**

The draft audit report fails to adequately disclose the amounts adjusted by reason or fiscal year. This information had to be reconciled to detail information provided at the exit conference. The amounts summarized by reason in Finding 1 of the draft audit report narrative cannot be reconciled with the detail schedule directly below. First, it appears that the line items under Components G1-G3 are incorrectly labeled. The amounts listed as "unsupported hours" (<\$7,865> for FY 2002-03 and \$2,028 for FY 2004-05) can be traced to adjustments attributed to "incorrect productive hourly rates" in schedules provided at the exit conference. Second, the amounts listed for both "unsupported hours" (once the line item labels are corrected) and "ineligible hours" on

the detail schedule do not correspond to the amounts listed for these items in the preceding paragraph.

### **Finding 1 Unallowable salary and benefit costs**

The District does not dispute this finding at this time.

Finding 1 eliminates \$14,489 as unallowable salary and benefits costs with \$4,938 in related indirect costs, for a total adjustment of \$19,427. The direct cost disallowed of \$14,489 consists of three amounts:

- \$6,944 disallowed due to "inaccurate productive hourly rates";
- \$4,468 disallowed due to hours claimed "that did not agree with hours documented"; and,
- \$3,077 as unallowable costs claimed.

Note that none of the adjustments were made because the costs claimed were excessive or unreasonable.

#### Productive Hourly Rates

The draft audit report asserts that inaccurate productive hourly rates were reported, resulting in costs that were overstated by \$9,186 for FY 2002-03 and understated by \$2,242 for FY 2004-05, leaving a net audit adjustment of \$6,944. The claims submitted by the district include a list of productive hourly rates for each employee by mandate component. The Controller's productive hourly rate calculation for several employees used different productive hours and benefit rates. The calculations will be reviewed and any continuing dispute will be the subject of the District's incorrect reduction claim.

#### "Unsupported Hours" Claimed

The draft audit report asserts \$4,468 for "undocumented" salaries and benefits. The documentation deficiencies are characterized in the auditor's detailed workpapers as: "undocumented"; "couldn't find"; "duplicate hours"; "contract interpretation"; "could not locate"; "per [employee's] log"; "addition error?"; and, "didn't sign."

The District concurs that claimed staff time must be documented, but does not concur with the adjustments because the audit report does not provide evidence in support of the qualitative decision the auditor made to disallow specific staff time. In other words, there is no evidence of why the auditor concluded that the costs were insufficiently supported.

The parameters and guidelines essentially require claimants to "show" or "indicate" the costs claimed. While everyone involved in the mandate reimbursement process can regret the imprecision of these instructions, these instructions do not require as a specific condition of reimbursement that claimants provide the individual activity log

sheets or time records the Controller has established after the fact as an audit requirement. Instead, the parameters and guidelines specify a "worksheet" supporting the calculation of hourly rates and benefits. The District has complied with the parameters and guidelines by supplying the Controller with worksheets supporting the costs claimed.

#### Unallowable Activities Claimed

The audit disallows \$3,077 claimed for two District administrators to attend a personnel manager's conference (ACHRO). The District does not dispute this finding at this time.

#### **Finding 2 Unallowable contracted services costs**

Finding 2 disallows \$1,900 in contract services for mediator services. The District does not dispute this finding at this time.

#### **Finding 3 Understated indirect cost rates claimed**

The Controller asserts that the District understated its indirect cost rates in the amount of \$6,515 for FY 2002-03, \$20,662 for FY 2003-04, \$18,431 for FY 2004-05, and \$49,210 for FY 2005-06. The understatement results from two sources other than the \$4,938 in allowable salaries and benefits from Finding 1.

#### Depreciation and Capital Costs

The first difference in methods is depreciation expense. The District included the CCSF-11 capital costs in the allocation of overhead costs for all four fiscal years. The Controller did not, but beginning FY 2004-05, the Controller's calculation includes depreciation expense (which are amortized capital costs) and the variance in claimed and audited rate declines.

The draft audit report states:

The district developed indirect cost rate proposals (IRCPs) based on Office of Management and Budget (OMB) Circular A-21 methodology. However, the district did not obtain federal approval for its IRCPs. Therefore, we calculated indirect cost rates using the alternative methodology (FAM-29C) allowed by the SCO's claiming instructions. The calculated FAM-29C indirect cost rates did not support the rated claimed.

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indirect cost rate using the Controller's FAM -29C. The correct forms were used and the claimed amounts were entered at the correct locations.

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The District is not submitting a new claim for these costs. The findings are the result of the Controller's audit. Further, Government Code Section 17561(d)(2) states:

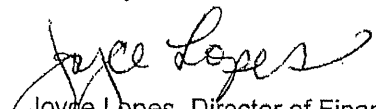
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#### Statute of Limitations

This was not an audit finding. The District's FY 2002-03 claim was submitted to the Controller's Office on January 15, 2004. Pursuant to Government Code Section 17558.5, this claim is subject to the initiation of an audit only until January 15, 2007. The Controller's audit was not initiated until April 2007. Therefore, audit or adjustment of the claim for FY 2002-03 is barred by the statute of limitations.

Sincerely,

  
Joyce Lopes, Director of Finance  
Sierra Joint Community College District

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

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