

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

Audit Report

COLLECTIVE BARGAINING PROGRAM

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

July 1, 2002, through June 30, 2005



JOHN CHIANG
California State Controller

July 2008



JOHN CHIANG
California State Controller

July 25, 2008

Manny Hernandez
President, Board of Education
Sacramento City Unified School District
5735 47th Avenue
Sacramento, CA 95824

Dear Mr. Hernandez:

The State Controller's Office audited the costs claimed by Sacramento City Unified School 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, 2005.

The district claimed and was paid \$870,839 (\$871,839 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$411,018 is allowable and \$459,821 is unallowable. The unallowable costs resulted primarily because the district did not provide documentation to substantiate claimed costs. The State will offset \$459,821 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

If the district provides sufficient documentation to supports additional allowable costs, the SCO will re-issue the final audit report, as appropriate.

If you disagree with the audit findings, 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 CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

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:wm

cc: Susan Miller, Interim Superintendent
Sacramento City Unified School District
Thomas S. Barentson, Deputy Superintendent/Chief Financial Officer
Sacramento City Unified School District
Carole Mignone Stephen, Associate Superintendent of Human Resources
Sacramento City Unified School District
Patty Hagemeyer, Chief Business Officer
Sacramento City Unified School District
David W. Gordon, County Superintendent of Schools
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Sacramento City Unified School 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, 2005.

The district claimed and was paid \$870,839 (\$871,839 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$411,018 is allowable and \$459,821 is unallowable. The unallowable costs resulted primarily because the district did not provide documentation to substantiate claimed costs. The State will offset \$459,821 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

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.

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 allowable claim components 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 it 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 for 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, 2005.

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 the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district’s financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

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, the Sacramento City Unified School District claimed and was paid \$870,839 (\$871,839 less a \$1,000 penalty for filing a late claim) for costs of the Collective Bargaining Program. Our audit disclosed that \$411,018 is allowable and \$459,821 is unallowable. The State will offset \$459,821 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

**Views of
Responsible
Officials**

We issued a draft audit report on July 3, 2008. Thomas Barentson, Deputy Superintendent/Chief Financial Officer, responded by letter dated July 18, 2008 (Attachment), disagreeing with the audit results for Findings 1 and 3. The district stated it does not have material arguments against the other findings. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the Sacramento City Unified School District, the Sacramento County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

July 25, 2008

**Schedule 1—
Summary of Program Costs
July 1, 2002, through June 30, 2005**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Components G1 through G3:				
Salaries and benefits	\$ 205,188	\$ 116,773	\$ (88,415)	Finding 1
Materials and supplies	2,440	—	(2,440)	Finding 2
Contracted services	99,800	99,800	—	
Subtotal	307,428	216,573	(90,855)	
Less adjusted base year direct costs	(29,790)	(29,790)	—	
Total increased direct costs, G1 through G3	277,638	186,783	(90,855)	
Components G4 through G7:				
Salaries and benefits	227,165	9,817	(217,348)	Finding 1
Materials and supplies	5,639	—	(5,639)	Finding 2
Contracted services	48,142	22,918	(25,224)	Finding 3
Total increased direct costs, G4 through G7	280,946	32,735	(248,211)	
Total increased direct costs, G1 through G7	558,584	219,518	(339,066)	
Indirect costs	30,264	16,178	(14,086)	Finding 1, 2, 4
Subtotal	588,848	235,696	(353,152)	
Less offsetting revenues	—	(16,596)	(16,596)	Finding 5
Total program costs	<u>\$ 588,848</u>	219,100	<u>\$ (369,748)</u>	
Less amount paid by the State		(588,848)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (369,748)</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Components G1 through G3:				
Salaries and benefits	\$ 30,124	\$ 27,234	\$ (2,890)	Finding 1
Materials and supplies	155	—	(155)	Finding 2
Contracted services	18,578	18,578	—	
Subtotal	48,857	45,812	(3,045)	
Less adjusted base year direct costs	(30,876)	(30,876)	—	
Total increased direct costs, G1 through G3	17,981	14,936	(3,045)	
Components G4 through G7:				
Salaries and benefits	39,160	40,509	1,349	Finding 1
Contracted services	149,685	64,761	(84,924)	Finding 3
Total increased direct costs, G4 through G7	188,845	105,270	(83,575)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
Total increased direct costs, G1 through G7	206,826	120,206	(86,620)	
Indirect costs	2,302	7,176	4,874	Finding 1, 2, 4
Subtotal	209,128	127,382	(81,746)	
Less offsetting revenues	—	(1,229)	(1,229)	Finding 5
Less late penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 208,128</u>	125,153	<u>\$ (82,975)</u>	
Less amount paid by the State		<u>(208,128)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (82,975)</u>		
<u>July 1, 2004, through June 30, 2005</u>				
Direct costs:				
Components G1 through G3:				
Salaries and benefits	\$ 38,751	\$ 36,034	\$ (2,717)	Finding 1
Contracted services	20,681	20,681	—	
Subtotal	59,432	56,715	(2,717)	
Less adjusted base year direct costs	(32,261)	(32,261)	—	
Total increased direct costs, G1 through G3	27,171	24,454	(2,717)	
Components G4 through G7:				
Salaries and benefits	16,011	11,430	(4,581)	Finding 1
Contracted services	29,394	27,355	(2,039)	Finding 3
Total increased direct costs, G4 through G7	45,405	38,785	(6,620)	
Total increased direct costs, G1 through G7	72,576	63,239	(9,337)	
Indirect costs	1,287	3,618	2,331	Finding 1, 4
Subtotal	73,863	66,857	(7,006)	
Less offsetting revenues	—	(92)	(92)	Finding 5
Total program costs	<u>\$ 73,863</u>	66,765	<u>\$ (7,098)</u>	
Less amount paid by the State		<u>(73,863)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (7,098)</u>		
<u>Summary: July 1, 2002, through June 30, 2005</u>				
Total increased direct costs	\$ 837,986	\$ 402,963	\$ (435,023)	
Indirect costs	33,853	26,972	(6,881)	
Subtotal	871,839	429,935	(441,904)	
Less offsetting revenues	—	(17,917)	(17,917)	
Less late penalty	(1,000)	(1,000)	—	
Total program costs	<u>\$ 870,839</u>	411,018	<u>\$ (459,821)</u>	
Less amount paid by the State		<u>(870,839)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (459,821)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated salaries and benefits

The district claimed \$314,602 of unallowable salaries and benefits for the audit period. The related indirect costs total \$23,044. The overstatement was attributable to ineligible costs, unsupported costs, and incorrectly calculated salaries and benefits rates. For the unsupported costs, the district provided no documentation to substantiate the hours claimed.

G3—Cost of Negotiations

The district overstated costs by \$94,022 (\$16,985 ineligible, \$82,206 unsupported, and \$5,169 understated) because it incorrectly calculated the salaries and benefits hourly rates. The ineligible costs include activities such as negotiation preparation, administrative transfers, and regular district standing committee meetings. The unsupported costs include \$7,736 in substitute costs, \$634 in duplicated claims, and \$73,836 for a portion of three employee relations individuals claimed at 95% of their costs for fiscal year (FY) 2002-03. During the course of the audit, the district provided additional documentation to support estimated costs claimed for FY 2002-03. We allowed the additional information to the extent supported with source documents.

G4—Impasse Proceedings

The district understated costs by \$1,952 because it incorrectly calculated the hourly rates.

G5—Collective Bargaining Agreement Disclosure

The district understated costs by \$89 because it incorrectly calculated the hourly rates.

G6—Contract Administration

The district overstated costs by \$222,593 (\$224,901 unsupported and \$2,308 understated) because it incorrectly calculated hourly rates. The unsupported costs consist of \$218,186 for a portion of three employee relations individuals claimed at 95% of their costs for FY 2002-03, and \$6,715 in other contract administration costs (\$2,238 for FY 2003-04, and \$4,477 for FY 2004-05). As noted under “G3—Cost of Negotiations” above, we allowed additional documentation the district provided during the audit, to the extent supported.

G7—Unfair Labor Practice Charges

The district overstated costs by \$28 because it incorrectly calculated the hourly rates.

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

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
<u>Salaries and Benefits</u>				
Components G1 through G3:				
Ineligible costs	\$ (9,517)	\$ (5,100)	\$ (2,368)	\$ (16,985)
Unsupported costs	(82,206)	—	—	(82,206)
Incorrectly calculated salaries and benefits rates	3,308	2,210	(349)	5,169
Subtotal	<u>(88,415)</u>	<u>(2,890)</u>	<u>(2,717)</u>	<u>(94,022)</u>
Components G4 through G7:				
Unsupported costs	(218,186)	(2,238)	(4,477)	(224,901)
Incorrectly calculated salaries and benefits rates	838	3,587	(104)	4,321
Subtotal	<u>(217,348)</u>	<u>1,349</u>	<u>(4,581)</u>	<u>(220,580)</u>
Total salaries and benefits	(305,763)	(1,541)	(7,298)	(314,602)
Related indirect costs	(22,535)	(92)	(417)	(23,044)
Audit adjustment	<u>\$ (328,298)</u>	<u>\$ (1,633)</u>	<u>\$ (7,715)</u>	<u>\$ (337,646)</u>

The program's parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will only be reimbursed 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 for activities reimbursable under the mandate and supported by source documents prepared contemporaneously. Source documents should identify the mandated functions performed and support the actual number of hours devoted to each function.

District's Response

The District claimed \$556,399 in employee salary and benefits. The SCO has disallowed \$314,602. Of the total disallowance, \$292,022 was attributed to the "unsupported costs . . . for a portion of three Employee Relations individuals claimed at 95% of their salaries."

- A) Employee/Employer Relations (EER) Department.
- a. The EER Department was the main arm of the District in its relations with its various exclusive representatives.
 - i. The duties of the EER Department Director include, but are not limited to, the following:
 1. Represent the Board of Education, the Superintendent, and district management in their relationships with exclusive representatives.
 2. Meet and negotiate with exclusive representatives.
 3. Develop and prepare district proposals and counter-proposals.
 4. Administer the district's grievance procedures for all employees and serve as the district grievance officer.

- ii. The duties of the EER Department Analysts include, but are not limited to, the following:
 1. Maintain minutes of negotiation sessions.
 2. Prepare documents for labor negotiations and grievance hearings.
 3. Serve as liaison between exclusive representatives and Director.
 4. Schedule negotiation meetings.
- b. The District regrets the almost entire disallowance of the salaries and benefits for FY 2002/03. The EER Department existed to comply with the very requirements the Collective Bargaining program mandates. The District believes the costs to be allowable yet acknowledges some deficiencies in the documentation to support those costs. It does not believe however that the allowed amount fully represents the true costs incurred.

The district also expressed concerns over the SCO's interpretation that negotiation preparation is a non-reimbursable individual activity and negotiation planning is a reimbursable group activity. Furthermore, the district stated that negotiation preparation was allowed as a reimbursable activity in a previous audit

SCO's Comment

The finding remains unchanged.

The district acknowledged that its documentation used to support three Employee Relations individuals did not support \$82,206 claimed for cost of negotiations and \$218,186 for costs of contract administration. The district stated that the allowed amount is significantly less than actual costs incurred.

The district was diligent in preparing sign-in sheets for any meeting of two or more employees. The allowable costs were supported by contemporaneous sign-in sheets identifying the topic, specific dates, and start and end times. The summation of these sign-in sheets fell short of the district's claim for 95% of its Employee/Employer Relations Department. The remaining portion of the claim was based on an estimate of time spent, supported only by a journal entry. In responding to the draft report, the district provided duty statements of the three individuals claimed with no corroborating evidence.

The SCO acknowledges that more costs were incurred than what was allowed. However, the district did not provide documentation to support the additional allowable costs. To comply with the mandate, the district should identify mandated activities performed, with actual dates and time spent. The district should document salaries and benefits according to procedures published in the California Department of Education's California School Accounting Manual that districts are required to comply with pursuant to Education Code section 41010. If the district provides sufficient documentation to support additional allowable costs, the SCO will re-evaluate this finding and will re-issue the final audit report, as appropriate.

Consistent with the parameters and guidelines, the SCO has consistently allowed hours claimed whenever two or more employees were involved in negotiation planning. However, the program's parameters and guidelines do not identify negotiations preparation as a reimbursable activity. Furthermore, the SCO auditor was informed that hours claimed for negotiation preparation were for preparing financial and other information for use by negotiating teams, such as compensation scenarios, which are not required costs incurred for the mandate.

The parameters and guidelines, section G, state that for cost of negotiations, salaries and benefits reimbursable include those of employer representatives participating in negotiations, employer representatives and employees participating in negotiation planning sessions, and cost of substitutes for release time of exclusive bargaining unit representatives during negotiations. The term "session" is indicative of a meeting or gathering. There is no mention of preparation as a reimbursable activity; sections G3(a) and G3(c) both address only the negotiations themselves.

**FINDING 2—
Unsupported materials
and supplies**

The district claimed \$8,234 in unallowable costs (\$8,079 with no supporting documentation and \$155 that was not directly related to collective bargaining activities) for FY 2002-03 and FY 2003-04. The related indirect costs total \$604.

The following table summarizes unallowable materials and supplies, and related indirect costs:

	Fiscal Year		Total
	2002-03	2003-04	
<u>Materials and Supplies</u>			
Components G1 through G3:			
Unsupported costs	\$ (2,440)	\$ —	\$ (2,440)
Ineligible costs	—	(155)	(155)
Subtotal	<u>(2,440)</u>	<u>(155)</u>	<u>(2,595)</u>
Components G4 through G7:			
Unsupported costs	<u>(5,639)</u>	—	<u>(5,639)</u>
Total materials and supplies	(8,079)	(155)	(8,234)
Related indirect costs	<u>(595)</u>	<u>(9)</u>	<u>(604)</u>
Audit adjustment	<u>\$ (8,674)</u>	<u>\$ (164)</u>	<u>\$ (8,838)</u>

The parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will only be reimbursed for the "increased costs" incurred. The parameters and guidelines further state that only expenditures that can be identified as a direct cost as a result of the mandate can be claimed. 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 for activities reimbursable under the mandate and supported by source documents. Source documents should identify the mandated functions performed and support the actual costs incurred.

District’s Response

The district stated that it does not have a material argument against this finding.

**FINDING 3—
Overstated contract
services**

The district claimed \$112,187 in unallowable costs for the audit period. The costs include activities not reimbursable under the mandate, such as job classification reviews, employee transfers, and personnel-related activities. The district did not claim indirect costs on contract services (see Finding 4).

The following table summarizes the unallowable contract services:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
<u>Contract Services</u>				
Components G4 through G7	\$ (25,224)	\$ (84,924)	\$ (2,039)	\$ (112,187)
Audit adjustment	<u>\$ (25,224)</u>	<u>\$ (84,924)</u>	<u>\$ (2,039)</u>	<u>\$ (112,187)</u>

The parameters and guidelines state that the claimant must support the level of costs claimed and that the claimant will only be reimbursed 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 for activities reimbursable under the mandate.

District’s Response

The District claimed \$366,280 in contract services costs. Most of these costs are for legal services provided to the district in support of negotiations and contract administration. The SCO has disallowed \$112,187.

Contract Administration (Grievances).

- a. The District does not take exception with the SCO’s position that personnel or disciplinary related grievances are not reimbursable. However; the District strongly disagrees with the SCO’s position, as explained in the Exit Conference held June 4, 2008, that unless a violation of the Collective Bargaining Agreement (CBA) can be proven (i.e. the grievant prevails) and results in an amendment of the CBA, then no costs are eligible to be claimed. This position is not supported by the Parameters and Guidelines (P’s & G’s) which state:

- i. “Contract administration and adjudication of contract disputes either by arbitration or litigation. Reimbursable functions include grievances and administration and enforcement of the contract.” P’s & G’s go on to state “Salaries and benefits of employer personnel involved in adjudication of contract disputes” and “contracted services” will be reimbursed.
- b. By interpreting the above as limiting allowable costs to grievances where the grievant prevails and changes are made to the CBA, the SCO is relying upon an interpretation it admittedly called “gray.” The P’s & G’s are absent of the language the SCO is basing this interpretation on. In an effort to understand this position, the District requested a written explanation and, while the SCO did respond, its response did not directly address the basis of the interpretation.

SCO’s Comment

The finding remains unchanged.

We acknowledge the statement made at the exit conference; however, that statement was clarified shortly after the conference and is not our position. We concur that contract dispute is reimbursable if an employee initiated the action due to violation of a collective bargaining agreement provision, regardless of who prevailed. This was the standard used to re-examine the allowability of contract administration costs claimed.

A review of the contract services claimed for contract administration did not differentiate whether a grievance was for collective bargaining contract dispute or for personnel action. It was not clear from invoices who initiated the action, employer or employee. If the district provides sufficient documentation to support additional allowable costs, the SCO will re-evaluate this finding and will re-issue the final audit report, as appropriate.

**FINDING 4—
Unclaimed indirect costs
on contract services**

The district did not claim any indirect costs on contract services for the audit period. The district relied on the claiming instructions that incorrectly excluded contract services from the calculation of indirect costs. We calculated the indirect costs to be \$16,767.

The following table summarizes the unclaimed indirect costs on contract services:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
Allowable contract services	\$ 122,718	\$ 83,339	\$ 48,036	
Indirect cost rate	× 7.37%	× 5.97%	× 5.72%	
Audit adjustment	<u>\$ 9,044</u>	<u>\$ 4,975</u>	<u>\$ 2,748</u>	<u>\$ 16,767</u>

California School Accounting Manual, Procedure 915, in effect for the audit period, categorized employee relations as direct costs when computing the indirect cost rate. Therefore, for the audit period, the district should apply indirect cost rates to contract services.

Recommendation

We recommend that the district apply its indirect cost rates to claimed costs that are categorized as direct costs when it develops the indirect cost rates.

District’s Response

The district stated that it does not have a material argument against this finding.

**FINDING 5—
Understated offsetting
revenues**

The district did not offset claimed costs for salaries and benefits and related indirect costs funded with restricted resources totaling \$17,917. The extent to which an employee is funded with restricted resources is not reimbursable under the mandate.

The following table summarizes the understated offsetting revenues:

	Fiscal Year			Total
	2002-03	2003-04	2004-05	
<u>Offsetting Revenues</u>				
Salaries and benefits	\$ (15,457)	\$ (1,160)	\$ (87)	\$ (16,704)
Related indirect costs	(1,139)	(69)	(5)	(1,213)
Audit adjustment	<u>\$ (16,596)</u>	<u>\$ (1,229)</u>	<u>\$ (92)</u>	<u>\$ (17,917)</u>

The parameters and guidelines state that the claimant will only be reimbursed 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 offset claimed costs by claimed amounts funded with restricted resources.

District’s Response

The district stated that it does not have a material argument against this finding.

Other Issues

In its response, the district addressed the following general issues that arose during the audit.

**Contemporaneous/
Supporting
Documentation**District's Response

Throughout the course of this audit the District was repeatedly faced with the challenge of providing the auditor with "supporting" documentation that would satisfy the SCO. While not always able to meet that challenge, the District did produce a substantial quantity of the documentation requested. Frequently, the District was told that documentation did not provide "sufficient evidence" or "reasonable proof." Nowhere in the P's and G's is "sufficient evidence" or "reasonable proof" defined. And while the stated standards of "sufficient" or "reasonable" evidence are often used by the SCO, from the perspective of the District only "absolute" and "conclusive" evidence appeared admissible.

SCO's Comment

The SCO does not require "absolute" and "conclusive" evidence to support claimed costs. The SCO's audit determines whether claimed costs are for reimbursable activities identified in the parameters and guidelines. The SCO examines documentation to determine whether costs claimed were allowable and supported.

The SCO performs audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The performance audit fieldwork standards require an auditor to obtain sufficient, competent, and relevant evidence to afford a reasonable basis for the auditors' findings and conclusions. Sufficient, competent, and relevant evidence for the mandated cost claims should be traceable to source documents that show evidence and validity of costs claimed.

Conduct of AuditDistrict's Response

As stated, the District has no issue with the performance or conduct of the auditor and her team. However; for the SCO to continue the audit for the full two years allowed under statute has made it very difficult for the District to provide the documentation necessary to mitigate the audit findings. Reassignment of the auditor to more pressing projects created delays that could have been avoided. While some of the delays may have been out of the SCO's control, the District hopes that in the event of another audit the SCO commits the necessary resources to complete the audit in a timely manner.

SCO's Comment

The SCO agrees that the audits should be conducted in a timely manner. To the extent possible, we will allocate necessary resources in future audits to ensure their completion in a reasonable time.

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



July 18, 2008

ADMINISTRATIVE SUPPORT UNIT

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Tom Barentson, *Deputy Superintendent/CFO*

Jim L. Spano, CPA
Chief, Mandated Cost Audits Bureau
Division of Audits
State Controller's Office
P.O. Box 942850
Sacramento, CA 94250-5874

**Re: Sacramento City Unified School District
Collective Bargaining Program
Audit of Annual Mandate Reimbursement Claim
Fiscal Years 2002/03 thru 2004/05**

Dear Mr. Spano:

This letter responds to the draft audit report issued by the State Controllers Office (SCO) with regard to costs claimed by Sacramento City Unified School District (District) for the legislatively mandated Collective Bargaining Program (Chapters 961775 and 1213/91) for the period of July 1, 2002 through June 30, 2005. The District extends its sincere gratitude to the SCO staff for their professional courtesies throughout this audit. Specifically the District wants to thank Joji Tyree for her efforts and dedication in working with the District. The District appreciates this opportunity to respond to the audit findings and please note that the District reserves the right to raise other issues (if necessary) in subsequent proceedings related to the SCO's audit of these claims.

Finding 1: Overstated salaries and benefits:

The District claimed \$556,399 in employee salary and benefits. The SCO has disallowed \$314,602. Of the total disallowance, \$292,022 was attributed to the "unsupported costs...for a portion of three Employee Relations individuals claimed at 95% of their salaries."

A) Employee/Employer Relations (EER) Department.

- a. The EER Department was the main arm of the District in its relations with its various exclusive representatives.
 - i. The duties of the EER Department Director include, but are not limited to, the following:
 1. Represent the Board of Education, the Superintendent, and district management in their relationships with exclusive representatives.
 2. Meet and negotiate with exclusive representatives.
 3. Develop and prepare district proposals and counter-proposals.
 4. Administer the district's grievance procedures for all employees and serve as the district grievance officer.
 - ii. The duties of the EER Department Analysts include, but are not limited to, the following:
 1. Maintain minutes of negotiation sessions.
 2. Prepare documents for labor negotiations and grievance hearings.
 3. Serve as liaison between exclusive representatives and Director.
 4. Schedule negotiation meetings.

- b. The District regrets the almost entire disallowance of the salaries and benefits for FY 2002/03. The EER Department existed to comply with the very requirements the Collective Bargaining program mandates. The District believes the costs to be allowable yet acknowledges some deficiencies in the documentation to support those costs. It does not believe however that the allowed amount fully represents the true costs incurred.

Finding 3: Overstated Contract Services:

The District claimed \$366,280 in contract services costs. Most of these costs are for legal services provided to the district in support of negotiations and contract administration. The SCO has disallowed \$112,187.

Contract Administration (Grievances).

- a. The District does not take exception with the SCO's position that personnel or disciplinary related grievances are not reimbursable. However, the District strongly disagrees with the SCO's position, as explained in the Exit Conference held June 4, 2008, that unless a violation of the Collective Bargaining Agreement (CBA) can be proven (i.e. the grievant prevails) and results in an amendment of the CBA, then no costs are eligible to be claimed. This position is not supported by the Parameters and Guidelines (P's & G's) which state:
 - i. "Contract administration and adjudication of contract disputes either by arbitration or litigation. Reimbursable functions include grievances and administration and enforcement of the contract." P's & G's go on to state "Salaries and benefits of employer personnel involved in adjudication of contract disputes" and "contracted services" will be reimbursed.
- b. By interpreting the above as limiting allowable costs to grievances where the grievant prevails and changes are made to the CBA, the SCO is relying upon an interpretation it admittedly called "gray." The P's & G's are absent of the language the SCO is basing this interpretation on. In an effort to understand this position, the District requested a written explanation and, while the SCO did respond, its response did not directly address the basis of the interpretation.

While the District does not have any material arguments for the remainder of the findings it does have disagreements or issues with some general issues that arose in this audit.

Contemporaneous/Supporting Documentation:

Throughout the course of this audit the District was repeatedly faced with the challenge of providing the auditor with "supporting" documentation that would satisfy the SCO. While not always able to meet that challenge, the District did produce a substantial quantity of the documentation requested. Frequently, the District was told that documentation did not provide "sufficient evidence" or "reasonable proof." Nowhere in the P's & G's is "sufficient evidence" or "reasonable proof" defined. And while the stated standards of "sufficient" or "reasonable" evidence are often used by the SCO, from the perspective of the District only "absolute" and "conclusive" evidence appeared admissible.

SCO Interpretations:

Perhaps most frustrating of all is the SCO's reliance upon "interpretation" to support its findings. "Interpretation" has been at the core of many disagreements regarding the mandate reimbursement process. Generally accepted interpretations, such as the meaning of negotiation "preparation", are now found to be not accepted by the SCO. Additionally, new interpretations, such as the SCO's interpretation on allowable grievance costs, are introduced for the first time despite years of precedent.

- a) Negotiation Preparation vs. Planning
 - a. The SCO states that the P's & G's do not allow for the cost of negotiation "preparation" to be claimed, as their interpretation of "preparation" is an individual activity. The P's & G's state "the costs of salaries and benefits for employer representatives and employees participating in negotiation planning sessions" is reimbursable. The SCO communicated that "preparation" does not equal "planning." As an example, two employer representatives simultaneously "preparing" for a negotiation session, but doing so on their own, would not be reimbursable. The same representatives doing the same activity but instead of doing it separately they prepare together would be considered "planning" and would be reimbursable. In a previous audit of the District on this program, the SCO did not employ this interpretation and costs claimed of that audit to this one.
- b) Contract Administration
 - a. Already addressed under "Finding 3," the SCO's interpretation relies upon an opinion it admittedly called "gray." The P's & G's are absent of the language the SCO is basing this interpretation on. In an effort to understand this position, the District requested a written explanation and, while the SCO did respond, its response did not directly address the basis of the interpretation.

Conduct of Audit

As stated, the District has no issue with the performance or conduct of the auditor and her team. However; for the SCO to continue the audit for the full two years allowed under statute has made it very difficult for the District to provide the documentation necessary to mitigate the audit findings. Reassignment of the auditor to more pressing projects created delays that could have been avoided. While some of the delays may have been out of the SCO's control, the District hopes that in the event of another audit the SCO commits the necessary resources to complete the audit in a timely manner.

In conclusion, the District once again thanks the SCO for this opportunity to respond to the audit findings.

Sincerely,



Thomas S. Barentson
Deputy Superintendent/CFO

cc: Susan Miller, Interim Superintendent, SCUSD
Carol Mignone Stephen, Associate Superintendent, Human Resource Services, SCUSD
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Amari Watkins, CPA, Accounting Services Director, SCUSD
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