SAN JOSE UNIFIED SCHOOL DISTRICT

Audit Report

NOTIFICATION OF TRUANCY PROGRAM

Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007

July 1, 2009, through June 30, 2012

BETTY T. YEE

California State Controller

April 2015

BETTY T. YEE
California State Controller

April 20, 2015

Sandra Engel, President
Board of Education
San Jose Unified School District
855 Lensen Avenue
San Jose, CA 95131

Dear Ms. Engel:

The State Controller's Office audited the costs claimed by the San Jose Unified School District for the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007) for the period of July 1, 2009, through June 30, 2012.

The district claimed $410,666 for the mandated program. Our audit found that $400,230 is allowable and $10,436 is unallowable. The costs are unallowable because the district claimed unsupported and non-reimbursable initial truancy notifications. The State paid the district $31,270. Allowable costs claimed exceed the amount paid by $368,960.

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

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

cc: Vincent Matthews, Superintendent
San Jose Unified School District
Stephen McMahon, Chief Business Officer
San Jose Unified School District
Lorena Jung, Mandated Cost Analyst & LEA Program Coordinator
San Jose Unified School District
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Division of Accounting and Reporting
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the San Jose Unified School District for the legislatively mandated Notification of Truancy Program (Chapter 498, Statutes of 1983; Chapter 1023, Statutes of 1994; Chapter 19, Statutes of 1995; and Chapter 69, Statutes of 2007) for the period of July 1, 2009, through June 30, 2012.

The district claimed $410,666 for the mandated program. Our audit found that $400,230 is allowable and $10,436 is unallowable. The costs are unallowable because the district claimed unsupported and non-reimbursable initial truancy notifications. The State paid the district $31,270. Allowable costs claimed exceed the amount paid by $368,960.

Background

Education Code section 48260.5 (added by Chapter 498, Statutes of 1983) originally required school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by first-class mail or other reasonable means that: (1) the pupil is truant; (2) parents or guardians are obligated to compel the pupil's attendance at school; (3) parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution; (4) alternative educational programs are available in the district; and (5) they have the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy.

Chapter 1023, Statutes of 1994 amended Education Code section 48260.5 to additionally require school districts to notify the pupil's parent or guardian that (1) the pupil may be subject to prosecution; (2) the pupil may be subject to suspension, restriction, or delay of the pupil's driving privilege; and (3) it is recommended that the parent or guardian accompany the pupil to school and attend classes with the pupil for one day.

Chapter 1023, Statutes of 1994, and Chapter 19, Statutes of 1995, amended Education Code section 48260 and renumbered it to section 48260, subdivision (a), stating that a pupil is truant when he or she is absent from school without valid excuse three full days in one school year or is tardy or absent for more than any 30-minute period during the school day without a valid excuse on three occasions in one school year, or any combination thereof.

On November 29, 1984, the State Board of Control (now the Commission on State Mandates (Commission)) determined that Chapter 498, Statutes of 1983, imposed a State mandate upon school districts, reimbursable under Government Code section 17561.

The parameters and guidelines establish the State mandated and define the reimbursement criteria. The Commission adopted parameters and guidelines on August 27, 1987. The Commission subsequently amended the parameters and guidelines four times, most recently on May 27, 2010. In compliance with Government Code section 17558, the SCO

issues claiming instructions to assist local agencies and schools districts in claiming mandated program reimbursable costs.

Objectives, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Notification of Truancy Program for the period of July 1, 2009, through June 30, 2012.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations.

To achieve our audit objectives, we performed the following audit procedures:

- Interviewed employees, completed the internal control questionnaire, and performed a walk-through of the cost components of each claim.
- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relationship to mandated activities.

Conclusion

Our audit found 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 San Jose Unified School District claimed $410,666 for costs of the Notification of Truancy Program. Our audit found that $400,230 is allowable and $10,436 is unallowable.

The State paid the district $31,270. Our audit found that $400,230 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling $368,960, contingent upon available appropriations.

Views of Responsible Official

We issued a draft audit report on January 16, 2015. Vincent Matthews, Ed.D, Superintendent, responded by letter dated January 26, 2015 (Attachment), agreeing with the audit results except for Finding 2. This final audit report includes the district's response.

Restricted Use

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

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

April 20, 2015

Schedule 1—
Summary of Program Costs
July 1, 2009, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference[1]
July 1, 2009, through June 30, 2010				
Number of initial truancy notifications	8,909	8,325	(584)	Findings 1, 2
Uniform cost allowance	× $17.87	× $17.87	× $17.87	
Total program costs	$ 159,204	148,768	$ (10,436)	
Less amount paid by the State		(31,270)		
Allowable costs claimed in excess of (less than) amount paid		$ 117,498		
July 1, 2010, through June 30, 2011				
Number of initial truancy notifications	3,696	4,111	415	Findings 1, 2
Uniform cost allowance	× $18.29	× $18.29	× $18.29	
Subtotal[2]	67,600	75,190	7,590	
Less allowable costs that exceed costs claimed [3]	—	(7,590)	(7,590)	
Total program costs	$ 67,600	67,600	$ —	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 67,600		
July 1, 2011, through June 30, 2012				
Number of initial truancy notifications	9,723	9,723	—	
Uniform cost allowance	× $18.91	× $18.91	—	
Total program costs	$ 183,862	183,862	$ —	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 183,862		
Summary: July 1, 2008, through June 30, 2011				
Total costs	$ 410,666	$ 407,820	$ (2,846)	
Less allowable costs that exceed costs claimed [3]	—	(7,590)	(7,590)	
Total program costs	$ 410,666	400,230	$ (10,436)	
Less amount paid by the State		(31,270)		
Allowable costs claimed in excess of (less than) amount paid		$ 368,960		

[1] See the Findings and Recommendations section.
[2] Calculation differences due to rounding.
[3] Government Code section 17568 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 2010-11.

Findings and Recommendations

FINDING 1—Understated and unallowable initial truancy notifications claimed

The district understated its claimed costs by the net amount of $6,682 for the audit period (understated by $13,269 and overstated by $6,587). Costs were understated because the district understated the total number of initial truancy notifications distributed for each year of the audit period. Costs were overstated because the district claimed costs for unallowable initial truancy notifications.

The district provided a list taken from its attendance accounting systems of students for whom the district distributed initial truancy notifications. The number of notifications documented exceeded the number of initial truancy notifications claimed (1 for FY 2009-10, 524 for FY 2010-11, and 194 for FY 2011-12).

The district's list of truancy notifications also contained notifications that were unallowable for the following reasons:

- Initial truancy notifications distributed for students who appeared two or more times in the district's attendance records (duplicate notifications). A student's initial truancy notification is the only notification eligible for mandated program reimbursement.
- Initial truancy notifications distributed for students who attended charter schools. Charter school activities are not eligible for mandated program reimbursement.
- Initial truancy notifications distributed for students who were involved in independent study programs. Independent study students are evaluated for compliance with their individual independent study agreements. They do not attend a normal class schedule and are not evaluated for normal school attendance tardiness or daily absences unless/until they return to a regular classroom schedule. Therefore, the initial truancy notification process is not applicable to independent study students.

The following table summarizes the overclaimed and underclaimed number of initial truancy notifications and resulting audit adjustments:

	Fiscal Year			
	2009-10	2010-11	2011-12	Total
Number of notifications documented	8,910	4,220	9,917	
Less number of notifications claimed	(8,909)	(3,696)	(9,723)	
Documented notifications exceeding notifications claimed	1	524	194	
Less: Duplicate notifications	(6)	-	(14)	
Less: Notifications for charter school students	(107)	-	(114)	
Less: Notifications for independent study students	(112)	(8)	-	
(Overstated)/understated number of notifications	(224)	516	66	
Uniform cost allowance	× $17.87	× $18.29	× $18.91	
Audit adjustment[1]	$ (4,003)	$ 9,437	$ 1,248	$ 6,682

[1] Calculation differences due to rounding.

The program's parameters and guidelines require the district to provide documentation that shows the total number of initial truancy notifications distributed. The mandated program reimburses claimants based on a uniform cost allowance, and the number of allowable and reimbursable notifications documented.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district claim the number of allowable initial truancy notifications that its records support. We also recommend that the district exclude from this count any duplicate notifications, and notifications that it distributes to charter school and independent study students.

District's Response

The draft audit report increased the number of claimable notifications, which becomes the audit universe for the statistical sampling later, by 358 which increases the claimed amount by a *net* amount of $6,683. The total number of notifications claimed was adjusted for four reasons:

	2009-10	2010-11	2011-12	Total
Number of notices per audit	8,910	4,220	9,917	23,047
Number of notices claimed	8,909	3,696	9,723	22,328
Adjustments:				
A. Documented notices	1	524	194	719
B. Duplicate notices	<6>	0	<14>	<20>
C. Charter school students	<107>	0	<114>	<221>
D. Independent study students	<112>	<8>	<0>	<120>
Total Adjustments to universe	<224>	516	66	358
Unit cost allowance	$17.87	$18.29	$18.91	
Adjustment amount	<$4,003>	$9,438	$1,248	$6,683

A. Number of documented notifications

The draft audit report identifies an additional 719 notifications that were supported by District documentation. The District concurs with this adjustment.

B. Duplicate notifications

The draft audit report disallows 20 duplicate notifications that were generated by the District attendance accounting system. The District concurs with this adjustment.

C. Charter school students

The draft audit report disallows 221 notifications that were generated by the District attendance accounting system for the dependent charter school. Attendance accounting is an administrative service provided by the District to the charter school. However, the District concurs that charter school students are not included within the reimbursable scope of the mandate.

D. Independent study students

The draft audit report disallows 120 notifications that were generated by the District attendance accounting system for independent study school sites. Based on recent audit results for this and other districts, this District is now on notice that while independent study students are included in the attendance accounting system by law, they are not included within the reimbursable scope of the mandate. The District concurs with this adjustment.

SCO's Comment

The district concurred with this adjustment.

FINDING 2—Non-reimbursable initial truancy notifications

The district claimed non-reimbursable initial truancy notifications totaling $16,449. The district claimed initial truancy notifications that it distributed for students who did not accumulate the required number of unexcused absences or tardiness occurrences during the school year to be classified as truant under the mandated program.

For each fiscal year, we selected a statistical sample based on a 95% confidence level, a precision rate of +/-8%, and an expected error rate of 50%. We used a statistical sample so that we could project the sample results to the population. The district accounts for student attendance differently depending on the student's grade level. Therefore, we stratified students into two groups for each year: those students subject to daily attendance accounting and those subject to period attendance accounting. We selected our samples from the lists of students that the district provided which were taken from its online attendance accounting systems. We excluded notifications for the duplicate notifications, charter school students, and independent study students identified in Finding 1 above from the sample population.

The following table summarizes the non-reimbursable initial truancy notifications identified in our statistical samples:

	Fiscal Year		
	2009-10	2010-11	2011-12
Number of unexcused absences and tardiness occurrences accumulated during the school year, fewer than three total for:			
Daily attendance accounting:	(6)	(2)	(5)
Period attendance accounting:	(6)	(4)	(7)
Non-reimbursable initial truancy notifications	(12)	(6)	(12)

The following table summarizes the audit adjustment based on the non-reimbursable initial truancy notifications identified for each group sampled:

	Fiscal Year			
	2009-10	2010-11	2011-12	Total
Daily attendance accounting:				
Number of unallowable initial truancy notifications from statistical sample	(6)	(2)	(5)	
Statistical sample size	÷ 143	÷ 135	÷ 142	
Unallowable percentage	(4.20)%	(1.48)%	(3.52)%	
Population sampled	× 2,881	× 1,331	× 2,774	
Extrapolated number of unallowable initial truancy notifications	(121)	(20)	(98)	
Uniform cost allowance	× $17.87	× $18.29	× $18.91	
Audit adjustment, daily attendance accounting (A)	$ (2,162)	$ (366)	$ (1,853)	$ (4,381)
Period attendance accounting:				
Number of unallowable initial truancy notifications from statistical sample	(6)	(4)	(7)	
Statistical sample size	÷ 146	÷ 143	÷ 147	
Unallowable Percentage	(4.11)%	(2.80)%	(4.76)%	
Population sampled	× 5,804	× 2,881	× 7,015	
Extrapolated number of unallowable initial truancy notifications	(239)	(81)	(334)	
Uniform cost allowance	× $17.87	× $18.29	× $18.91	
Audit adjustment, period attendance accounting (B)	$ (4,271)	$ (1,481)	$ (6,316)	(12,068)
Total audit adjustment ((A) + (B))	$ (6,433)	$ (1,847)	$ (8,169)	$ (16,449)

Education Code section 48260, subdivision (a), states:

> Any pupil *subject to compulsory full-time or to compulsory continuation education* [emphasis added] who is absent from school without valid excuse three full days in one school year or tardy or absent for more than any 30-minute period during the schoolday [*sic*] without a valid excuse on three occasions in one school year, or any combination thereof, is truant.

The parameters and guidelines (section 1 – Background Summary of Mandate) state:

> A truancy occurs when a student is absent from school without valid excuse three (3) full days in one school year, or is tardy or absent without valid excuse for more than any thirty (30)-minute period during the school day on three (3) occasions in one school year, or any combination thereof.

Recommendation

Commencing in FY 2012-13, the district elected to participate in a block grant program, pursuant to Government Code section 17581.6, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district claim initial truancy notifications only for those students who accumulate the required number of unexcused absences or tardiness occurrences while subject to compulsory full-time education.

District's Response

As a result of the statistical sample extrapolation, the draft audit report reduces the number of claimable notifications by 893 which decreases the claimed amount by $16,449. The District does not agree with the statistical method and extrapolation used by the audit.

REASON FOR DISALLOWANCE	2009-10	2010-11	2011-12	Total
Net Universe for extrapolation	8,685	4,212	9,789	22,686
Daily attendance method				
Less than 3 Absences	6	2	5	13
Sample Size	143	135	142	420
Percentage Disallowance	4.20%	1.48%	3.52%	
Sample Universe	2,881	1,331	2,774	6,986
Extrapolated disallowances	121	20	98	239
Unit cost allowance	$17.87	$18.29	$18.91	
Adjustment amount	$2,162	$366	$1,853	$4,381
Period attendance method				
Less than 3 Absences	6	4	7	17
Sample Size	146	143	147	436
Percentage Disallowance	4.11%	2.80%	4.76%	
Sample Universe	5,804	2,881	7,015	15,700
Extrapolated disallowances	239	81	334	654
Unit cost allowance	$17.87	$18.29	$18.91	
Adjustment amount	$4,271	$1,481	$6,316	$12,068
TOTAL ADJUSTMENT	<$6,433>	<$1,847>	<$8,169>	<$16,449>

These 893 disallowed notifications (239 + 654) are based on the extrapolation of 30 (13 + 17) notifications disallowed for an insufficient number of absences, that is, less than the three required by the Education Code, to generate the notification. The District believes that these 30 notifications were properly generated by the attendance accounting system, but later some of the required of absences may have been "cleared" (reversed) based on subsequent information. The District concurs that the 30 notifications should be disallowed.

The draft audit report states that this finding is based on a statistical sample of truancy notifications actually examined for the three fiscal years. Annual sample sizes of 135 to 147 notifications were selected each for both elementary and secondary schools, for a total of 856 notifications for the three years. Based on the claimed number of notifications for the three years (22,686), it appears the sample size is about 4.0%. The results from this limited review were extrapolated to the sample universe and the claims were adjusted based on the extrapolation. The draft audit report has cited no statutory or regulatory

authority to allow the Controller to reduce claimed reimbursement based on an extrapolation of a statistical sample. The Controller does not assert that the claimed costs were excessive or unreasonable, which is the only mandated cost audit standard in Government Code Section 17561, subdivision (d) (2). It would, therefore, appear that the entire findings are based upon the wrong standard for review. This issue is the subject of appeals pending decision by the Commission on State Mandates.

Limitation of allowed costs

For FY 2010-11, the audited findings resulted in a net increase in program costs of $7,591: a $9,438 increase from Finding 1, and a $1,847 decrease from Finding 2. The District asserts that the auditor's decision not to increase the reimbursable mandate costs beyond those which were claimed results in an underpayment of reimbursable amounts. The stated basis for this limitation on allowable costs is Government Code Section 17568, cited in footnote 2 on page 4 of the draft audit report. The footnote states "that the State will not reimburse any claim more than one year after the filing deadline." Section 17568 pertains to the timely filing of an annual claim not to the amount or nature of audited reimbursable costs:

> If a local agency or school district submits an otherwise valid reimbursement claim to the Controller after the deadline specified in Section 17560, the Controller shall reduce the reimbursement claim in an amount equal to 10 percent of the amount that would have been allowed had the reimbursement claim been timely filed, provided that the amount of this reduction shall not exceed ten thousand dollars ($10,000). In no case shall a reimbursement claim be paid that is submitted more than one year after the deadline specified in Section 17560.

Section 17568 does not limit the allowable amount of the annual claim, it only penalizes late claims. The District's annual claims were filed on time.

There is no Government Code section cited that prohibits the Controller from reimbursement of audited costs in excess of claimed costs. Government Code Section 17561(d)(2) (C) states: "The Controller shall adjust the payment to correct for any underpayments or overpayments which occurred in previous fiscal years." The use of the word "shall" makes the adjustment of both underpayments and overpayments mandatory. Thus, auditors do not have the discretion to unilaterally determine that they will deny 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 cost discovered as the result of an audit. The $7,591 should be reinstated for payment.

SCO's Comments

The finding and recommendation are unchanged. The district did not provide additional documentation to refute the audit finding.

The district states in its response that "The Controller does not assert that the claimed costs were excessive or unreasonable, which is the only

mandated cost audit standard in Government Code Section 17561, subdivision (d)(2)." We disagree.

Government Code section 17558.5 requires the district to file a reimbursement claim for *actual* [emphasis added] mandate-related costs. Government Code section 17561, subdivision (d)(2), allows the SCO to audit the district's records to verify *actual* [emphasis added] mandate-related costs. Further, 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."

In any case, the SCO did conclude that the district's claims were excessive. Excessive is defined as "Exceeding what is usual, *proper, necessary*, [emphasis added], or normal."[1] The district filed claims for initial truancy notifications that are not reimbursable under the mandated program. Therefore, the costs claimed are excessive.

The district states that we cited no statutory or regulatory authority to "reduce claimed reimbursement based on an extrapolation of a statistical sample." As the district previously indicated, Government Code section 17561, subdivision (d)(2) allows the SCO to reduce any claim that it determines is excessive or unreasonable. We used statistical sampling properly in our audit to reach such a determination.

We conducted our audit according to generally accepted government auditing standards (*Government Auditing Standards*, issued by the U.S. Government Accountability Office, December 2011). Government Auditing Standards, section 1.04, states, "The professional standards and guidance contained in this document . . . provide a framework for conducting high quality government audits and attestation engagements with competence, integrity, objectivity, and independence." Generally accepted government auditing standards require the auditor to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions. The standards recognize statistical sampling as an acceptable method to provide sufficient, appropriate evidence.

Regarding allowable costs in excess of claimed costs, the District states, "Government Code section 17568 does not limit the allowable amount of the annual claim, it only penalized late claims." However, section 17568 states, "In no case shall a reimbursement claim be paid that is submitted more than one year after the deadline specified in Section 17560." We believe that this section establishes an upper limit as to the amount a claimant can be reimbursed. The fact that the district has incurred a cost mandated by the State is not sufficient in itself for an entitlement to reimbursement. It is the filing of a claim, within the allotted time frames, detailing the costs actually incurred, that entitles the district to reimbursement.

Government Code section 17561, subdivision (d)(2)(B) gives the Controller authority only to reduce claims, not increase or adjust them. In addition, Government Code section 17561, subdivision (d)(2)(C) states,

[1] Merriam-Webster's Collegiate Dictionary, Tenth Edition, 2001

"The Controller shall adjust the payment to correct for any underpayments or overpayments which occurred in previous fiscal years." We believe this provision is intended to direct the Controller to adjust the payment owing to the claimant (up to the amount claimed during the statutory period) in consideration of previous payments made to the claimant. For underpayment, this relates to unpaid or underpaid amounts based on allowable costs claimed. For overpayment, this relates to overpaid amounts that occurred when audit adjustments exceeded the amounts previously paid on the claim.

Further, Article XVI, section 6, of the California Constitution prohibits the making of a gift of public funds. We believe that allowing costs not claimed within the time period to file an annual or amended claim would constitute a gift of public funds and, therefore, should be neither allowable nor reimbursable.

OTHER ISSUE—Public records request

The district's response included a public records request.

District's Response

> The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period relevant to the findings, and specifically, the Controller's legal authority to use statistical sampling to adjust claims and to disallow notices sent to students whose attendance is otherwise required by law. . . .

SCO's Comment

The SCO will respond separately to the district's request.

Attachment—
District's Response to
Draft Audit Report

San Jose Unified
School District

Vincent Matthews, Ed.D.
Superintendent

"Inspiring and Preparing for Success"

January 26, 2015

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

Re: Notification of Truancy Audit
Chapter 498, Statutes of 1983
Fiscal Years: 2009-10, 2010-11, and 2011-12
San Jose Unified School District

Dear Mr. Spano:

This letter is the response of the San Jose Unified School District to the letter from Jeffrey V. Brownfield, Chief, Division of Audits, dated January 16, 2015, that transmitted the draft audit report of the District's Notification of Truancy mandate annual reimbursement claims for the period of July 1, 2009 through June 30, 2012.

The District claimed $410,666 for the three fiscal years that are the subject of this audit. The draft audit report concludes that $10,436 is not allowable for the audit period, which is a reduction of about 2.5%. However, the findings involve legal issues that are the subject of several incorrect reduction claims still pending hearing by the Commission on State Mandates and cannot be resolved for this audit without the findings from the Commission. Therefore, the District will be filing an incorrect reduction from this audit to preserve its rights.

FINDING 1: Understated and unallowable initial truancy notifications claimed

The draft audit report increased the number of claimable notifications, which becomes the audit universe for the statistical sampling later, by 358 which increases the claimed amount by a *net* amount of $6,683. The total number of notifications claimed was adjusted for four reasons:

San Jose Unified
School District

Vincent Matthews, Ed.D.
Superintendent

"Inspiring and Preparing for Success"

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A. Number of documented notifications

The draft audit report identifies an additional 719 notifications that were supported by District documentation. The District concurs with this adjustment.

B. Duplicate notifications

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C. Charter school students

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D. Independent study students

The draft audit report disallows 120 notifications that were generated by the District attendance accounting system for independent study school sites. Based on recent audit results for this and other districts, this District is now on notice that while independent study

Board of Education
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students are included in the attendance accounting system by law, they are not included within the reimbursable scope of the mandate. The District concurs with this adjustment.

FINDING 2: Non-reimbursable initial truancy notifications

As a result of the statistical sample extrapolation, the draft audit report reduces the number of claimable notifications by 893 which decreases the claimed amount by $16,449. The District does not agree with the statistical method and extrapolation used by the audit.

REASON FOR DISALLOWANCE	2009-10	2010-11	2011-12	Total
Net Universe for extrapolation	8,685	4,212	9,789	22,686
Daily attendance method				
Less than 3 Absences	6	2	5	13
Sample Size	143	135	142	420
Percentage Disallowance	4.20%	1.48%	3.52%	
Sample Universe	2,881	1,331	2,774	6,986
Extrapolated disallowances	121	20	98	239
Unit cost allowance	$17.87	$18.29	$18.91	
Adjustment amount	$2,162	$366	$1,853	$4,381
Period attendance method				
Less than 3 Absences	6	4	7	17
Sample Size	146	143	147	436
Percentage Disallowance	4.11%	2.80%	4.76%	
Sample Universe	5,804	2,881	7,015	15,700
Extrapolated disallowances	239	81	334	654
Unit cost allowance	$17.87	$18.29	$18.91	
Adjustment amount	$4,271	$1,481	$6,316	$12,068
TOTAL ADJUSTMENT	<$6,433>	<$1,847>	<$8,169>	<$16,449>

These 893 disallowed notifications (239 + 654) are based on the extrapolation of 30 (13 + 17) notifications disallowed for an insufficient number of absences, that is, less than the three required by the Education Code, to generate the notification. The District believes that these 30 notifications were properly generated by the attendance accounting system, but later

some of the required of absences may have been "cleared" (reversed) based on subsequent information. The District concurs that the 30 notifications should be disallowed.

The draft audit report states that this finding is based on a statistical sample of truancy notifications actually examined for the three fiscal years. Annual sample sizes of 135 to 147 notifications were selected each for both elementary and secondary schools, for a total of 856 notifications for the three years. Based on the claimed number of notifications for the

three years (22,686), it appears the sample size is about 4.0%. The results from this limited review were extrapolated to the sample universe and the claims were adjusted based on the extrapolation. The draft audit report has cited no statutory or regulatory authority to allow the Controller to reduce claimed reimbursement based on an extrapolation of a statistical sample. The Controller does not assert that the claimed costs were excessive or unreasonable, which is the only mandated cost audit standard in Government Code Section 17561, subdivision (d)(2). It would, therefore, appear that the entire findings are based upon the wrong standard for review. This issue is the subject of appeals pending decision by the Commission on State Mandates.

Limitation of allowed costs

For FY 2010-11, the audited findings resulted in a net increase in program costs of $7,591: a $9,438 increase from Finding 1, and a $1,847 decrease from Finding 2. The District asserts that the auditor's decision not to increase the reimbursable mandate costs beyond those which were claimed results in an underpayment of reimbursable amounts. The stated basis for this limitation on allowable costs is Government Code Section 17568, cited in footnote 2 on page 4 of the draft audit report. The footnote states "that the State will not reimburse any claim more than one year after the filing deadline." Section 17568 pertains to the timely filing of an annual claim not to the amount or nature of audited reimbursable costs:

> If a local agency or school district submits an otherwise valid reimbursement claim to the Controller after the deadline specified in Section 17560, the Controller shall reduce the reimbursement claim in an amount equal to 10 percent of the amount that would have been allowed had the reimbursement claim been timely filed, provided that the amount of this reduction shall not exceed ten thousand dollars ($10,000). In no case shall a reimbursement claim be paid that is submitted more than one year after the deadline specified in Section 17560.

Section 17568 does not limit the allowable amount of the annual claim, it only penalizes late claims. The District's annual claims were filed on time.

San Jose Unified
School District

Vincent Matthews, Ed.D.
Superintendent

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There is no Government Code section cited that prohibits the Controller from reimbursement of audited costs in excess of claimed costs. Government Code Section 17561(d)(2) (C) states: "The Controller shall adjust the payment to correct for any underpayments or overpayments which occurred in previous fiscal years." The use of the word "shall" makes the adjustment of *both* underpayments and overpayments mandatory. Thus, auditors do not have the discretion to unilaterally determine that they will deny 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 cost discovered as the result of an audit. The $7,591 should be reinstated for payment.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period relevant to the findings, and specifically, the Controller's legal authority to use statistical sampling to adjust claims and to disallow notices sent to students whose attendance is otherwise required by law.

Government Code section 6253, subdivision (c), requires the state agency that is the subject of the request, within ten days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District please state the estimated date and time when the records will be made available.

Sincerely,

Vincent C. Matthews, Ed.D.,
Superintendent of Schools

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