

GROSSMONT UNION HIGH SCHOOL DISTRICT

Audit Report

GRADUATION REQUIREMENTS PROGRAM

Chapter 498, Statutes of 1983

July 1, 2008, through June 30, 2010



BETTY T. YEE
California State Controller

June 2016



BETTY T. YEE
California State Controller

June 21, 2016

Robert Shield, President
Governing Board
Grossmont Union High School District
P.O. Box 1043
La Mesa, CA 91944-1043

Dear Mr. Shield:

The State Controller's Office audited the costs claimed by Grossmont Union High School District for the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 2008, through June 30, 2010.

The district claimed \$21,221,594 for the mandated program. Our audit found that \$5,635,762 is allowable (\$5,645,762 less a \$10,000 penalty for filing a late claim), and \$15,585,832 is unallowable. The costs are unallowable because the district claimed non-reimbursable acquisition of additional space costs; overstated textbooks, materials, and supplies costs; understated teacher staffing costs; and did not report all related offsetting revenue. The State paid the district \$10. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,635,752, contingent upon available appropriations.

This final audit report contains an adjustment to costs claimed by the district. If you disagree with the audit finding(s), you may file an Incorrect Reduction Claim (IRC) with the Commission on the State Mandates (Commission). Pursuant to Section 1185, subdivision (c), of the Commission's regulations (*California Code of Regulations*, Title 3), an IRC challenging this adjustment must be filed with the Commission no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain IRC information on the Commission's website at www.csm.ca.gov/forms/IRCFORM.pdf.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/lis

cc: Ralf Swenson, Superintendent
Grossmont Union High School District
Ken Leighton, Executive Director
Grossmont Union High School District
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Grossmont Union High School District for the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 2008, through June 30, 2010.

The district claimed \$21,221,594 for the mandated program. Our audit found that \$5,635,762 is allowable (\$5,645,762 less a \$10,000 penalty for filing a late claim), and \$15,585,832 is unallowable. The costs are unallowable because the district claimed non-reimbursable acquisition of additional space costs; overstated textbooks, materials, and supplies costs; understated teacher staffing costs; and did not report all related offsetting revenues. The State paid the district \$10. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,635,752, contingent upon available appropriations.

Background

Chapter 498, Statutes of 1983, amended section 51225.3 of the Education Code. This section requires that beginning with the 1986-87 school year, no pupil shall receive a high school diploma without completing an additional science course above that which was required prior to the enactment of Chapter 498, Statutes of 1983. One year of science was required prior to Chapter 498/83 and as a result of this legislation, two science courses are now required. The mandate specifies that the curriculum include one course each of biological and physical science.

On January 22, 1987, the Commission on State Mandates (Commission) adopted its Statement of Decision finding that Education Code section 51225.3, as amended by Chapter 498, Statutes of 1983, imposed a reimbursable state mandated program upon school districts, by requiring school districts to provide an additional science course to students prior to their graduation from the twelfth grade.

On March 23, 1988, the Commission adopted the parameters and guidelines that establish the State mandate and define the reimbursement criteria. The parameters and guidelines have been amended several times since its adoption. The most recent amendment adopted November 6, 2008, applies to claims for January 1, 2005, and forward. The amended parameters and guidelines were corrected on December 18, 2008, to delete references to filing estimated claims because estimated claims are no longer authorized.

Objectives, Scope, and Methodology

We conducted this performance audit to determine whether costs claimed represent increased costs resulting from the Graduation Requirements Program for the period of July 1, 2008, through June 30, 2010.

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 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. We did not audit the district's financial statements.

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.

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

- Reviewed annual claims filed with SCO to identify any mathematical errors and performed analytical procedures to determine any unusual or unexpected variances from year to year.
- Completed an internal control questionnaire and performed a walk-through of the claim preparation process to determine what information was used, who obtained the information and how the information was obtained.
- Assessed whether computer-processed data provided by the district to support claimed cost could be relied upon.
- Reviewed the calculation for increased teacher staffing costs, including documentation supporting elements of calculation.
- Traced claimed costs to the district's accounting records.
- Judgmentally selected a sample of construction costs and performed a test of transactions in order to verify the validity of the costs and ensure costs were mandate related. Requested and reviewed requisitions, invoices, and proof of payment.
- Inquired whether the district realized any offsetting savings or revenues related to mandated costs.

Conclusion

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

For the audit period, Grossmont Union High School District claimed \$21,221,594 for costs of the Graduation Requirements Program. Our audit found that \$5,635,762 is allowable (\$5,645,762 less a \$10,000 penalty for filing a late claim) and \$15,585,832 is unallowable.

The State paid the district \$10. Our audit found that \$5,635,762 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$5,635,752, contingent upon available appropriations.

**Views of
Responsible
Officials**

We issued a draft audit report on May 5, 2016. Scott Patterson, Deputy Superintendent of Business Services, responded by letter dated May 13, 2016, disagreeing with the audit results. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of Grossmont Union High School District, the San Diego 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

June 21, 2016

Schedule—
Summary of Program Costs
July 1, 2008, through June 30, 2010

Cost Elements	Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Component A: Acquisition of additional space ²	\$ 8,614,068	\$ -	\$ (8,614,068)	Finding 1
Component D: Increased cost for staffing new science classrooms	2,801,291	2,801,291	-	
Component E: Increased cost for supplying new science classrooms ²	20,349	15,236	(5,113)	Finding 2
Total direct costs	11,435,708	2,816,527	(8,619,181)	
Indirect costs	95,372	95,199	(173)	Finding 2
Total direct and indirect costs	11,531,080	2,911,726	(8,619,354)	
Less offsetting revenues ²	(4,307,034)	-	4,307,034	Finding 4
Total program costs	<u>7,224,046</u>	2,911,726	<u>(4,312,320)</u>	
Less amount paid by the state		-		
Allowable costs claimed in excess of (less than) amount paid		<u>\$2,911,726</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs:				
Component A: Acquisition of additional space ²	\$ 21,019,884	\$ -	\$ (21,019,884)	Finding 1
Component D: Increased cost for staffing new science classrooms	2,451,824	2,617,555	165,731	Finding 3
Component E: Increased cost for supplying new science classrooms ²	869,918	-	(869,918)	Finding 2
Total direct costs	24,341,626	2,617,555	(21,724,071)	
Indirect costs	596,353	116,481	(479,872)	Findings 1, 2, 3
Total direct and indirect costs	24,937,979	2,734,036	(22,203,943)	
Less offsetting revenues ²	(10,940,431)	-	10,940,431	Finding 4
Less late filing penalty ³	-	(10,000)	(10,000)	
Total program costs	<u>\$13,997,548</u>	2,724,036	<u>\$ (11,273,512)</u>	
Less amount paid by the state		(10)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$2,724,026</u>		

Schedule 1 (continued)

Cost Elements	Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2008, through June 30, 2010</u>				
Direct costs:				
Component A: Acquisition of additional space ²	\$ 29,633,952	\$ -	\$ (29,633,952)	
Component D: Increased cost for staffing new science classrooms	5,253,115	5,418,846	165,731	
Component E: Increased cost for supplying new science classrooms ²	890,267	15,236	(875,031)	
Total direct cost	35,777,334	5,434,082	(30,343,252)	
Indirect costs	691,725	211,680	(480,045)	
Total direct and indirect costs	36,469,059	5,645,762	(30,823,297)	
Less offsetting revenues ²	(15,247,465)	-	15,247,465	
Less late filing penalty ³	-	(10,000)	(10,000)	
Total program costs	<u>\$ 21,221,594</u>	5,635,762	<u>\$ (15,585,832)</u>	
Less amount paid by the state		(10)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 5,635,752</u>		

¹ See the Findings and Recommendations section.

² The district did not separately report on its claims direct costs and offsetting revenues. We recategorized the district's direct costs and offsetting revenues into the appropriate claim components based on information the county provided. This recategorization separately identifies the portion of direct costs offset by State bond revenues.

³ The district filed its FY 2009-10 annual reimbursement claim for \$2,560,930 by the due date specified in Government Code section 17560, and amended it to \$13,997,548 after the due date. Pursuant to Government Code section 17568, the State assessed a late filing penalty equal to 10% of allowable costs that exceed the timely filed claimed amount, not to exceed \$10,000.

Findings and Recommendations

FINDING 1— Unallowable acquisition of additional space costs

The district claimed \$29,633,952 (\$8,614,068 for fiscal year (FY) 2008-09 and \$21,019,884 for FY 2009-10) for Component A - Acquisition of Additional Space cost component during the audit period. The related indirect cost is \$467,692. We found that the entire amount is unallowable.

The district claimed the additional space costs, net of adjustments, representing the incremental increase in science course enrollment resulting from the mandated program. We conclude that the entire amount is unallowable because the district did not meet the documentation requirements outlined in the program's parameters and guidelines. In addition, we noted that the district overstated costs by claiming ineligible charter school costs, applying an unsupported incremental increase percentage to determine increased science course enrollment, and including non-science classroom-related construction costs.

As the entire amount claimed for acquisition of additional space is unallowable, we adjusted the corresponding indirect costs. In addition, the district erroneously applied the California Department of Education (CDE) approved indirect cost rate to the construction costs.

For FY 2009-10, the district applied the CDE-approved indirect cost rate to construction costs claimed under the Acquisition of Additional Space cost component. The claimed construction costs are identified as Facilities Acquisition and Construction costs (Function 8500) on the district's expenditure ledger. Further, a significant portion of these costs are also identified as Capital Outlay (object codes 6000-6999). The SCO's claiming instructions for the program identifies costs excluded from the indirect cost distribution base that should be deducted in accordance with the California School Accounting Manual (CSAM). The CSAM, Procedure 915, specifically excludes the application of the indirect rate to Facilities Acquisition and Construction costs (Function 8500) and Capital Outlay costs (object codes 6000-6999); therefore, the indirect cost rate cannot be applied to these costs.

The following table summarizes the audit adjustment:

	Fiscal Year		Total
	2008-09	2009-10	
Noncompliance with specific documentation requirements	\$ (8,614,068)	\$ (21,019,884)	\$ (29,633,952)
Miscalculation of incremental costs resulting in overstated costs	(1,698,694)	(1,261,193)	(2,959,887)
Ineligible charter school costs	(990,148)	(3,808,654)	(4,798,802)
Ineligible non-science classroom construction costs	(186,798)	(335,404)	(522,202)
Total direct cost adjustment ¹	(8,614,068)	(21,019,884)	(29,633,952)
Related indirect costs	-	(467,692)	(467,692)
Audit adjustment	\$ (8,614,068)	\$ (21,487,576)	\$ (30,101,644)

¹Total adjustment limited to amount claimed.

Noncompliance with Specific Documentation Requirements

For the audit period, the documentation the district provided did not meet the documentation criteria set forth in the program's parameters and guidelines to demonstrate that the additional space was required as a result of the implementation of Education Code section 51225.3.

The district did not provide documentation showing that it analyzed all science facilities and determined, based on that analysis, that no facility existed that could reasonably accommodate the increased enrollment for the additional science class. The documents the district provided indicate that its buildings are old/antiquated and more modern science facilities are needed. The parameters and guidelines state that costs are reimbursable if the district needs additional space for the additional year of science instruction, not to upgrade its facilities to a more modern science complex. In addition, the documentation provided indicated that there is overcrowding at several of the school sites due to construction of new residential areas in the school district's attendance boundaries. Therefore, the district has not met the specific documentation requirements to support that the costs claimed for new science classroom construction would not have been otherwise acquired due to the increase in the number of students enrolling in high school. As a result, we determined that all of the costs claimed are non-reimbursable.

Other Adjustments

Even though the we identified the entire amount claimed as unallowable, we noted other adjustments for the following reasons:

Miscalculation of Incremental Costs Resulting in Overstated Costs

For the audit period, the district applied an unsupported incremental increase to construction costs to arrive at the reimbursable mandate-related portion. In its calculations, the district used 50% to determine the increased costs related to the implementation of the mandate. The parameters and guidelines (section VIII (A)(1)) require documentation that science course enrollments increased due to the mandate. The district did not provide any documentation to support its percentage.

In the absence of any documentation to support the claimed incremental increase, we applied the percentage increase used to compute the increased staffing costs based on the One-Quarter Class Load formula. We believe that the approach is reasonable in that it is evidence based and consistent with the identification of increased staffing and materials and supplies costs. Using the One-Quarter Class Load formula, the increased number of science classes identified is divided by the total number of science class offerings for the fiscal year. We computed the incremental increase using the formula; the percentages are 40.14% (167/416) for FY 2008-09 and 47% (154.7/329) for FY 2009-10. We then applied the incremental increase to construction costs. As a result, we concluded that the district overstated construction costs by \$2,959,887 (\$1,698,694 for FY 2008-09 and \$1,261,193 for FY 2009-10) by using an unsupported increased cost percentage.

The following table summarizes the audit adjustment:

	Fiscal Year		Total
	2008-09	2009-10	
Acquisition of addition space costs	\$ 17,228,136	\$ 42,039,768	
Incremental increase in science classes	x 40.14%	x 47.0%	
Increased costs	6,915,374	19,758,691	
Less claimed costs	(8,614,068)	(21,019,884)	
Overstated construction costs	\$ (1,698,694)	\$ (1,261,193)	\$ (2,959,887)

Ineligible Charter School Costs

The district claimed science classroom construction costs for Helix Charter High School. Charter schools are not identified as eligible claimants in the parameters and guidelines for the mandated cost program. Charter schools are entities that are separate and distinct from the school district, and they operate based on agreements with school districts or county offices of education. In addition, the parameters and guidelines do not include a provision allowing third parties (i.e., school districts) to claim mandate reimbursement on behalf of charter schools. As a result, we determined that the district claimed ineligible science construction costs for the charter school totaling \$4,798,082 (\$990,148 for FY 2008-09 and \$3,808,654 for FY 2009-10).

Ineligible Non-science Classroom Construction Costs

The district included non-science classroom construction costs in its claims. These non-mandate-related costs include construction of locker rooms (boys' gym), school perimeter fencing, parking lot repaving, and installation of parking lot lights as part of its reimbursement claims. We determined that these costs do not relate to the construction and renovation of science classes totaling \$522,202 (\$186,798 for FY 2008-09 and \$335,404 for FY 2009-10).

Criteria

The parameters and guidelines (section V) state "to be eligible for mandate costs reimbursement ... only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities."

The program's parameters and guidelines (section V (A)) state that:

...the acquisition of additional space for conducting new science classes are reimbursable only to the extent that districts can document that the space would not have been otherwise acquired due to increases in the number of students enrolling in high school and that it was not feasible, or would be more expensive to acquire space by remodeling existing facilities.

In addition, the parameters and guidelines (section VIII (A)) require school districts and county offices of education to provide the following supporting documentation:

1. Documentation of increased units of science course enrollments due to the enactment of Education Code section 51225.3 necessitating such an increase.
2. Documentation of lack of appropriately configured and equipped space in existing facilities for the new courses.
3. Certification by the Board that an analysis of all appropriate science facilities within the district was conducted, and a determination made that no such facilities existed to reasonably accommodate increased enrollment for the additional science courses required by the enactment of Education Code section 51225.3. To reasonably accommodate includes:
 - a. Adjusting attendance boundaries to balance attendance between under-utilized and over-utilized secondary school facilities within the district.
 - b. Taking advantage of other available secondary school science facilities that are within a secure walking distance of the school.
4. Documentation that the additional space for conducting new science classes is required only when the space would not have otherwise been acquired due to an increase in high school enrollment.
5. Documentation that remodeling existing facilities was not feasible or would have been more expensive than acquiring additional space.

The SCO's claiming instructions for the program identify that costs excluded from the indirect cost distribution base should be deducted in accordance with the CSAM. The CSAM, Procedure 915, excludes the application of CDE-approved indirect cost rates to Facilities Acquisition and Construction (Function 8500) and Capital Outlay (object codes 6000–6999) costs.

The parameters and guidelines (section V) state, “the claimant is only allowed to claim and be reimbursed for increased costs for reimbursable activities. Increased cost is limited to the cost of an activity that the claimant is required to incur as a result of the mandate.”

In reference to the eligibility of charter schools, the parameters and guidelines (section II) list school districts and county offices of education as eligible claimants. Charter schools are not identified as an eligible claimant and there is no provision that allows school districts and county offices of education to claim costs on behalf of charter schools.

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. As of FY 2013-14, the Graduation Requirements program was included in the block grant program. If the district chooses to opt out of the block grant program, we recommend that

the district claim only those costs that it incurred as a result of Education Code section 51225.3. In addition, the district should ensure that it obtains and retains all documentation required by the parameters and guidelines before claiming reimbursement.

District's Response

Before addressing each of the individual audit findings, the district made the following general statement regarding the claimed facility construction and fixtures acquisition costs. The district claimed facilities costs in two cost components: 1) Component A - Acquisition of Additional Space and 2) Component E - Increased Cost for Supplying New Science Classrooms.

All of the amounts claimed for facility construction and fixtures acquisition costs for both fiscal years have been disallowed by the audit. In sum, since the draft audit report does not assert that all of the disallowed claimed costs were excessive or unreasonable, which is the only statutory mandated cost audit standard (Government Code Section 17561(d) (2)), the wrong standard of review was used. An incorrect reduction claim will be needed since most of the adjustments are based on Controller audit policies, the propriety of which can only be determined by appeal to the Commission on State Mandates. The District's incorrect reduction claim will be submitted to the Commission after we receive the final audit report.

The district's response to Finding 1 is as follows:

The draft audit report disallows the amount of \$29,633,952 claimed for construction and acquisition costs and related indirect costs of \$467,692, because "the district did not meet the documentation requirements outlined in the program's parameters and guidelines." However, the District actually claimed \$4,307,034 for FY 2008-09 (amended claim) and \$10,509,941 for FY 2009-10 (amended claim). The draft audit report doubles the claimed amounts for purposes of applying offsetting savings in Finding 4.

Notwithstanding, this total disallowance, there are subsidiary findings regarding charter school costs, the "incremental increase percentage" to determine increased science course enrollment and non-science classroom-related construction costs.

Documentation Requirements <\$29,633,952>

The draft audit report asserts that "the documentation the district provided did not meet the documentation criteria set forth in the program's parameters and guidelines to demonstrate that the additional space was required as a result of the implementation of Education Code section 51225.3. This will be a question of fact and law for the Commission.

Incremental Costs <\$2,959,887>

The complete disallowance of all costs notwithstanding, the draft audit report asserts that the District's claim for 50% of the construction/acquisition costs, is an incorrect "incremental cost." The draft audit report states that no documentation was provided to support the percentage. The District used 50% because the number of mandated science classes doubled as a matter of law and there is no question of fact remaining.

Instead, the draft audit report applied the percentage increase used to compute the increased staffing costs extrapolated from the One-Quarter Class Load formula. The draft audit report states that this is “reasonable” because “it is evidence based and consistent with the identification of increased staffing and materials and supplies costs.” Using the One-Quarter Class Load formula, the audited incremental increase percentages are 40.14% (167/416) for FY 2008-09 and 47% (154.7/329) for FY 2009-10. The audit applies these percentages to the construction costs.

The Quarter Load formula is a reasonable reimbursement methodology established in the parameters and guidelines for the purposes of calculating increased annual teaching costs. It was not approved for use by the Commission for the calculation of construction/acquisition costs. Other than its availability for another purpose, its utility for the construction/acquisition cost calculation is not supported by fact and is contrary to the parameters and guidelines.

Charter School Costs <\$4,798,082>

The District claimed, and the draft audit report disallows, science classroom construction costs at the Helix High School schoolsite. The draft audit report correctly cites that charter schools are not identified as eligible claimants in the parameters and guidelines for the mandated cost program. The draft audit report wrongly concludes that the District is acting as a “third party” claiming mandate reimbursement on behalf of a charter school.

The Helix Charter High School is not claiming the costs. These costs are on an annual claim submitted by the District. The District is not claiming Helix Charter High School operating (increased teaching) costs. As a matter of law Helix High School is the property of the District, it was not “sold” to the charter school. The charter school leases the property. The District, not the charter school, is responsible for implementing the mandate to have sufficient science classroom facilities. The District facility costs for Helix High School are incorrectly disallowed.

“Non-science” Classroom Construction Costs <\$522,202>

The complete disallowance of all costs notwithstanding, the draft audit report states that the District included non-science classroom construction costs in its claims. Although the specific amounts are not enumerated in the draft audit report, these costs are stated to include construction of locker rooms (boys’ gym), school perimeter fencing, parking lot repaving, and installation of parking lot lights as part of its reimbursement claims. The District is in the process of reviewing the invoices related to these items and will respond in the incorrect reduction claim.

Indirect Cost Rate

At this time, the District does not dispute the auditor's reclassification of the construction/acquisition costs as “fixed assets” on Form-1 of the claiming instructions. The net cost effect of this one change is not calculated in the draft audit report.

SCO's Comments

The SCO's finding and recommendation remains unchanged. Our responses are organized in subheadings to correspond to the district's comments as follows:

General comment

The district asserts that the SCO used the wrong standard of review in determining that all claimed costs for facility acquisition were unallowable. The district states that "... the draft report does not assert the disallowed costs were excessive or unreasonable, which is the only statutory mandated cost audit standard (Government Code Section 17561 (d) (2))".

We disagree with the assertion that the wrong standard of review was used in determining unallowable costs. We used the criteria identified in the parameters and guidelines for this program as the basis of our findings. The statement of decision is legally binding on all parties and provides the legal and factual basis for the parameters and guidelines. The support for the legal and factual findings is found in the administrative record for the test claim.

The Commission's statement of decision dated January 22, 1987, determined that Education Code section 51225.3 imposed a reimbursable state mandate upon school districts, which was titled the Graduation Requirements Program. The original parameters and guidelines for the program were established and adopted by the Commission on March 3, 1988. The parameters and guidelines have been amended several times over the years; however, the most recent parameters and guidelines relevant to the audit period were adopted on November 2008, for the reimbursement period beginning January 1, 2005. The district's comment indicates it does not believe it should be in compliance with the parameters and guidelines in order to be reimbursed for the program.

The district also asserts that the draft audit report doubles the district's claimed amounts of \$4,307,034 for FY 2008-09 (amended claim) and \$10,509,941 for FY 2009-10 (amended claim) "for purposes of applying offsetting savings in Finding 4." As noted in the footnote to the Schedule, the district did not identify the costs and offsetting revenues separately in its claims. On the claim Form 1, line item (10), the claimant is required to identify offsetting revenues. However, the district did not complete this section of the claim for either fiscal year. In supporting schedules for the claims provided to the SCO, the district identified total costs before applying State bonds as an offset. We used this information to correctly identify the costs and associated offsetting revenues. In addition, the district identified acquisition of additional space costs of \$8,614,068 for FY 2008-09 and \$21,019,884 for FY 2009-10 on Form 2 of its submitted claims. Therefore, to clarify the presentation of the finding, and to report costs and offsetting revenues consistent with the program's parameters and guidelines and SCO's claiming instructions, we identified the district's total costs.

Documentation Requirements

The district states that the issue is a question of fact and law for the Commission to decide and did not provide a comment.

We reiterate that the program's parameters and guidelines (section VIII (A)) require school districts and county offices of education to provide specific documentation to support that the costs claimed for science classes are due to the enactment of Education Code section 51225.3 and not due to increased enrollment at the high school district. As noted in the finding, the documentation provided by the district did not meet the specified criteria. The documentation indicated that construction costs were incurred because the district's buildings were old and there was increased enrollment within the high school district. The district did not provide documentation to support that acquisition costs were incurred due to the enactment of Education Code section 51225.3.

Incremental Costs

The district asserts that it used 50% as its incremental cost percentage because the number of mandated science classes doubled "as a matter of law and there is no question of that fact remaining." We disagree with the district's methodology. The parameters and guidelines state that a claimant is allowed to claim the increased costs only for reimbursable activities. Further, the parameters and guidelines (section VIII (A)(1)) states that required support includes documentation of increased science course enrollments due to the enactment of Education Code section 51225.3 necessitating such an increase. In its response, the district does not dispute the fact that it did not provide supporting documentation regarding increased science course enrollments due to the mandate. It merely indicates that the SCO applied a different methodology.

As noted in the finding, we used information included the One-Quarter Class Load formula to determine the incremental increase in science course enrollments. We believe that this is a reasonable approach rather than concluding that costs were unallowable due to lack of documentation. We used the total science class offerings and the increased science class offerings components from the formula. The formula indicates that the number of class offerings did not double, as the results of the formula showed 40.14% (167/416) for FY 2008-09 and 47% (154.7/329) for FY 2009-10. It is not reasonable to assume that the capacity increased by 50% simply because the statute required an additional science class.

Charter Schools

We disagree with the district's assessment that the audit report "wrongly concludes that the district is acting as a third party claiming mandate reimbursement on behalf of the charter school."

The parameters and guidelines provide the criteria for reimbursable costs for the mandated cost program and do not identify charter schools as an eligible claimant. Further, it is unclear why the district believes it is responsible for implementing the mandate for an entity that is separate and distinct from itself.

Non-science Classroom Construction Costs

As noted in the finding, the audit disclosed that the district included costs in its claims that were not science-related. The district indicates it will respond to this portion of the finding when it files its incorrect reduction claim.

Indirect Costs

The district states:

At this time, the District does not dispute the auditor's reclassification of the construction/acquisition costs as "fixed assets" on Form-1 of the claiming instructions. The net cost effect of this one change is not calculated in the draft audit report.

To clarify the finding in relation to indirect costs, we offer the following comment. The district indicates that we reclassified construction/acquisition costs as fixed assets. The draft audit report did not indicate that costs were reclassified. The report disclosed that the district applied the indirect cost rate to costs claimed under the Acquisition of Additional Space cost component. The report also disclosed that the claimed costs were identified as Facilities and Construction costs (Function 8500) and a portion as Capital Outlay costs (object codes 6000-6999). Consistent with the California School Accounting Manual, Procedure 915, and the SCO's claiming instructions, the function code and related object codes are specifically excluded in the application of the indirect cost rate. Therefore, the related indirect costs claimed in FY 2009-10 totaling \$467,692 are unallowable.

**FINDING 2—
Overstated textbooks,
materials, and
supplies costs**

The district claimed \$890,267 (\$20,349 for FY 2008-09 and \$869,918 for FY 2009-10) for Component E - Increased Costs for Supplying New Science Classrooms cost component. We found that \$875,031 is unallowable. The related indirect cost on this adjustment is \$19,728. The costs are unallowable because the district overstated reported costs, claimed facilities-related materials and supplies costs, and used an unsupported percentage to determine the incremental increased costs resulting from the implementation of the mandate.

The following table summarizes the audit adjustment:

	Fiscal Year		Total
	2008-09	2009-10	
Overstated textbooks, materials and supplies costs	\$ (1,101)	\$ -	\$ (1,101)
Non-reimbursable materials and supplies costs	-	(860,978)	(860,978)
Unsupported incremental increase	(4,012)	(52,196)	(56,208)
Unallowable costs ¹	(5,113)	(869,918)	(875,031)
Related indirect costs	(173)	(19,555)	(19,728)
Audit adjustment	<u>\$ (5,286)</u>	<u>\$ (889,473)</u>	<u>\$ (894,759)</u>

¹Total adjustment for FY 2009-10 limited to amount claimed.

Overstated textbooks, materials, and supplies costs

For FY 2008-09, the district filed an amended claim reporting total textbooks, materials, and supplies costs of \$20,349. The district claimed costs net of an adjustment representing the incremental increase in science course enrollments as a result of the mandated program (50%). The district's accounting records did not support the total expenses used to compute claimed costs. We computed the claimed costs using the actual expenses supported by the district's accounting records. Our computation resulted in an overstatement of \$1,101 claimed costs.

Non-reimbursable materials and supplies costs

For FY 2009-10, the district claimed \$860,978 in non-reimbursable materials and supplies costs. The amount was claimed by the district net of adjustment representing the incremental increase in science course enrollments as a result of the mandated program. As noted in Finding 1, we found that the district did not meet the specific documentation requirements set forth in the parameters and guidelines to support that the need for additional space resulted from the mandate. The claimed materials and supplies costs were used to furnish and equip the new science buildings. These costs were expensed as part of the new science classrooms in the district's accounting records. As noted in Finding 1, all associated facilities acquisition costs are non-reimbursable.

Unsupported incremental increase

For the audit period, the district applied an unsupported incremental increase to textbooks, materials, and supplies costs to arrive at the reimbursable mandate-related portion. In its calculations, the district used 50% to determine the increased costs related to the implementation of the mandate. The parameters and guidelines (section VIII (A)(1)) require documentation that science course enrollment increased due to the mandate.

In the absence of any documentation provided by the district to support its incremental increase percentage, we computed a percentage based on the One-Quarter Class Load formula. As noted in Finding 1, we computed the incremental increase using the formula; the percentages are 40.14% (167/416) for FY 2008-09 and 47% (154.7/329) for FY 2009-10. We then applied the incremental increase to textbooks, materials, and supplies costs. As a result, we concluded that the district overstated costs by \$56,208 by using an unsupported increased cost percentage.

The following table summarizes the overstated costs:

	Fiscal Year		Total
	2008-09	2009-10	
Textbooks, materials, and supplies	\$ 40,699	\$ 1,739,835	
Incremental increase in science classes	x 40.14%	x 47.0%	
Increased costs	16,337	817,722	
Less claimed costs	(20,349)	(869,918)	
Overstated materials and supplies costs	<u>\$ (4,012)</u>	<u>\$ (52,196)</u>	<u>\$ (56,208)</u>

Criteria

The parameters and guidelines (section V (E)) state that only the increased costs for supplying the new science class mandated with science instructional materials is allowable.

In addition, the parameters and guidelines (section VIII (A)) require school districts and county offices of education provide the following supporting documentation:

1. Documentation of increased units of science course enrollments due to the enactment of Education Code section 51225.3 necessitating such an increase.
2. Documentation of lack of appropriately configured and equipped space in existing facilities for the new courses.
3. Certification by the Board that an analysis of all appropriate science facilities within the district was conducted, and a determination made that no such facilities existed to reasonably accommodate increased enrollment for the additional science courses required by the enactment of Education Code section 51225.3. To reasonably accommodate includes:
 - a. Adjusting attendance boundaries to balance attendance between under-utilized and over-utilized secondary school facilities within the district.
 - b. Taking advantage of other available secondary school science facilities that are within a secure walking distance of the school.
4. Documentation that the additional space for conducting new science classes is required only when the space would not have otherwise been acquired due to an increase in high school enrollment.
5. Documentation that remodeling existing facilities was not feasible or would have been more expensive than acquiring additional space.

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. As of FY 2013-14, the Graduation Requirements program was included in the block grant program. If the district chooses to opt out of the block grant program, we recommend that the district use the incremental increase percentage identified in the One Quarter Class Load formula to apply to its textbooks, materials, and supplies costs to derive the increased costs related to the mandated science instructional materials and supplies.

District's Response

The draft audit report states that the District claimed \$890,267 for supplying the new science classrooms cost component, of which the draft audit report determined \$875,031 is unallowable with the related indirect cost of \$19,728. However, the District actually claimed \$20,349 for FY 2008-09 (amended claim) and \$439,429 for FY 2009-10 (amended claim). The draft audit report doubles the amount for FY 2009-10 for

purposes of applying offsetting savings in Finding 4. The draft audit report states the costs are unallowable because the district overstated reported costs, claimed facilities-related materials and supplies costs, and used an unsupported percentage to determine the incremental increased costs resulting from the implementation of the mandate.

Textbooks, Materials, and Supplies Costs <\$1,101>

For FY 2008-09, the District claimed textbooks, materials, and supplies costs of \$20,349, based on 50% rate discussed in Finding 1. The audit evaluated the invoices and reduced the claimed amount by \$1,101. This amount is not disputed at this time.

Non-reimbursable Materials and Supplies Costs <\$875,031>

For FY 2009-10, the District claimed \$439,429 (most of which is doubled by the audit to (\$869,918) in materials and supplies costs which the audit determined to be non-reimbursable due to lack of specific documentation required by the parameters and guidelines to “support that the need for additional space resulted from the mandate.” The claimed costs were for fixtures to equip the new science buildings. Because the classroom construction/acquisition costs are disallowed by Finding 1, the draft audit report disallows the fixtures cost here. The District response here is the same as for Finding 1, and it will be a question of law and fact for the Commission.

Incremental Increase <\$56,208>

As is the case for Finding 1, the District used 50% as the “incremental cost.” The draft audit report states that no documentation was provided to support the percentage. The draft audit report applied the audited percentage increase used to compute the increased staffing costs based on the One-Quarter Class Load formula (40.14% for FY 2008-09 and 47% for FY 2009- 10). The District response here is the same as in Finding 1 for the incremental increase issue

SCO’s Comments

The SCO’s finding and recommendation remains unchanged. Our responses are organized in subheadings to correspond to the district’s comments as follows:

General Comment

The district asserts that the draft audit report doubles the district’s claimed amounts “for purposes of applying offsetting savings in Finding 4.” In the footnote to the Schedule, we disclosed that the district did not identify the direct costs and offsetting revenues separately in its claims. As noted in our response to the district’s comments for Finding 1, we identified the total costs reported for FY 2009-10 based on information provided in the supporting schedules the district submitted with its claim. These schedules separate the portion of materials and supplies costs that were construction related and general expenses. The district identified the construction related costs as Proposition H (local restricted funds) and the non-construction, general expenses as non-Proposition H (unrestricted funds). For construction costs, the district reduced costs by 50% representing the portion funded by State bonds. However, the district did not report any of

these offsetting revenues on the applicable claim forms (Form 1). To clarify the presentation of the finding and to report direct costs and offsetting revenues consistent with the program's parameters and guidelines and the SCO's claiming instructions, we identified the total costs the district should have reported on its mandated costs claims.

Textbooks, Materials, and Supplies Costs

We have no comment, as the district did not dispute this adjustment.

Non-reimbursable Materials and Supplies Costs

The district identifies the non-reimbursable amount due to the lack of specific documentation as \$875,031. The actual construction-related amount identified as non-reimbursable in Finding 2 is \$860,978. As noted in the general comment, the construction-related portion of costs identified as Proposition H on supporting schedules was reduced by 50% representing State bonds. However, the district did not separately report the direct costs and revenues on its claims (Form 1). We separated the direct costs and offsetting revenues on the Schedule based on the support submitted with the district's claims.

As noted in our response to the district's comments in Finding 1, the district did not comply with the specific documentation requirements identified in parameters and guidelines (section VIII (A)). The requirements include specific documentation to support that the costs claimed for science classes are due to the enactment of Education Code section 51225.3 and not due to increased enrollment at the high school district. As noted in the finding, the documentation provided by the district did not meet the specified criteria. The documentation indicated that construction costs were incurred because the district's buildings were old and there was increased enrollment within the high school district. The district did not provide documentation to support that acquisition costs were incurred due to the enactment of Education Code section 51225.3.

Incremental Costs

The district indicated that its response was the same as for Finding 1.

To reiterate our response to the district's comments in Finding 1, the parameters and guidelines (section VIII (A)(1)) provide that required support includes documentation of increased science course enrollments due to the enactment of Education Code section 51225.3 necessitating such an increase. The district did not provide supporting documentation regarding increased science course enrollments due to the mandate. In the absence of any documentation provided, we applied the incremental increase in science classes based on the One-Quarter Class Load formula. We believe that this is a reasonable approach given the lack of documentation provided by the district. The formula results in incremental increases in science course offerings as follows: 40.14% for FY 2008-09 and 47% for FY 2009-10.

**FINDING 3—
Understated teacher
staffing costs**

The district claimed \$2,451,824 for Component D - Increased Cost for Staffing New Science Classrooms cost component for FY 2009-10. The district supported \$2,617,555 in costs. Therefore, we found that the district understated costs by \$165,731. The related indirect cost adjustment is \$7,375.

The following table summarizes the understated teacher staffing costs:

	Fiscal Year 2009-10
Allowable staffing costs	\$ 2,617,555
Claimed staffing costs	(2,451,824)
Understated staffing costs	165,731
Indirect cost rate	x 4.45%
Related indirect costs	7,375
Audit adjustment	<u>\$ 173,106</u>

For the audit period, the district claimed staffing costs using the Reasonable Reimbursement Methodology (RRM) based on the One-Quarter Class Load formula. The formula requires claimants to use statistical data reported to the California Department of Education (CDE), accumulated in its California Basic Educational Data System (CBEDS).

For FY 2009-10, the district used an unsupported average science class size for its calculation. During this period, the system used to report statistical data was changed to the California Longitudinal Pupil Achievement Data System (CALPADS). Due to this change, the district used an estimated average science class size in its calculation. We recalculated the RRM using an average science class size computed using statistical data from CALPADS.

The following table summarizes our recalculation of the RRM:

One-Quarter Class Load Formula	Fiscal Year 2009-10
1 Secondary enrollment	19,984
2 One quarter class load (divide line 1 by 4)	4,996
3 Average science class size	32.3
4 Increased classes (line 2 divided by line 3)	154.7
5 Number of classes taught per teacher	5
6 Increased science teachers (line 4 divided by line 5)	30.94
7 Average science teacher salary and benefits	<u>\$ 84,601</u>
8 Total additional science teacher costs	<u>\$ 2,617,555</u>

Criteria

The parameters and guidelines (section VII (A)) allow the use of an RRM to calculate the reimbursable costs for the additional science teachers. In order to take advantage of the RRM, the district must use the One-Quarter Class Load formula to calculate the direct costs of teacher salaries for staffing the new mandated science class. The One-Quarter Class Load formula from the parameters and guidelines (section VII (A)(2)), which identifies the data elements needed and the steps to calculate the increased teacher staffing costs, is as follows:

1. Total regular secondary enrollment for grades 9-12 on the CBEDS Information Day for the claim year is divided by four representing the additional year of science.
2. The number of additional classes the enrollment in (1) divided by the average science class size.
3. The additional teachers are determined by dividing the additional classes in (2) by the classes taught by full-time equivalent teacher (5 class periods).
4. The increased cost is determined by multiplying the number of teachers in (3) by the average annual teacher salary and benefit cost for the school district for the claim year.

The SCO's claiming instructions and the parameters and guidelines allow school districts to recover indirect costs using the CDE-approved indirect cost rate.

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. As of FY 2013-14, the Graduation Requirements program was included in the block grant program. If the district chooses to opt out of the block grant program, we recommend that the district ensure that it calculates the RRM's increased teacher staffing costs using the statistical data reported to the CDE.

District's Response

During this period, the system used to report statistical data was changed to the California Longitudinal Pupil Achievement Data System (CALPADS), data that was not immediately available to the District for the calculation. The draft audit report recalculated the RRM using an average science class size computed using the statistical data later available from CALPADS. No dispute at this time.

SCO's Comment

The finding and recommendation remain unchanged. The district does not dispute this adjustment.

**FINDING 4—
Unreported offsetting
revenues**

For the audit period, the district funded the net claimed costs for new science classrooms using local restricted funds. The facilities costs were claimed under the Component A - Acquisition of Additional Space and Component E - Increased Costs for Supplying New Science Classrooms cost components. All of the facilities costs claimed were charged against local restricted resources; these funds were provided through a local bond measure. Notwithstanding the audit adjustments in Finding 1 and Finding 2, the costs net of State bonds for Component A (\$14,816,976) and a portion of Component E (\$430,489) are still zero, as the remainder was fully funded with local restricted funds.

The following table summarizes the unreported offsetting revenues:

	Fiscal Year		Total
	2008-09	2009-10	
Component A - Acquisition of additional space costs	\$ (4,307,034)	\$ (10,509,942)	\$ (14,816,976)
Component E - Increased cost for supplying new science classrooms	-	(430,489)	(430,489)
Audit adjustment	\$ (4,307,034)	\$ (10,940,431)	\$ (15,247,465)

The county reduced facilities costs by State bond funds administered by the Office of Public School Construction (OPSC). The OPSC is authorized by the California Department of General Services. The district reduced net facilities costs by 50%, representing offsetting revenues provided by the OPSC for new construction totaling \$15,247,465. However, the district did not reduce the remaining facilities costs by local bond proceeds. As noted above, the total facilities costs were charged against local restricted resources. Despite the reductions to direct costs, the net costs are still zero, as the remainder was funded with local bond proceeds. As there are no allowable facilities costs for Component A and a portion of Component E, no corresponding offsetting revenues are identified in the Allowable per Audit column of the Schedule.

In March 2004, the district’s voters approved a bond measure, Proposition H, authorizing the district to issue up to \$274 million in general obligation bonds for school facility improvements. The ballot measure was entitled “Neighborhood School Repair, Safety and Overcrowding Measure.” The purpose of the bond measure is restricted to renovating specific schools within the district. The district included various projects that it would complete with the proceeds received from the bond issuance.

Education Code section 15100 authorizes the sale of general obligation bonds, which are secured by statutory obligation, to levy an *ad valorem* property tax sufficient for interest and redemption of the bonds. The proceeds from the sale of the bonds are restricted to acquiring or improving real property and not for other purposes, as outlined in Proposition H. The district used the bond funds to demolish old science classrooms and construct new science buildings.

We determined that the terms of Proposition H indicate that the funds may be used only for constructing and repairing the district’s school sites (Component A). Further, the proposition requires the district’s taxpayers to fund the construction projects through additional levies made to their

property taxes. The district's taxpayers have been and are still currently assessed property taxes in amounts specifically for the purpose of retiring the Proposition H bonds. Therefore, the taxpayers are funding both the entire bond principal and interest amounts.

In addition, the district charged a significant portion of the textbooks, materials, and supplies expenses (Component E) against local restricted resources (Proposition H). The bond proceeds were used to furnish and equip the new science classrooms. The district's taxpayers are funding both the bond principal and interest through an *ad valorem* property tax levied on area real estate. Therefore, there was no fiscal impact to the district.

Based on the district's accounting records, we concluded that a combination of local restricted resources and State bonds fully funded the claimed construction costs for the science buildings. There was no fiscal impact to the district to construct or remodel its science buildings. Therefore, any costs claimed and charged against local restricted resources (Proposition H) should have been fully offset by these funds.

Criteria

The parameters and guidelines (section IX) identify reimbursement from any source, including but not limited to, federal, state, and block grants. Further, in regard to science facilities, the guidelines also specifically identify state bond funds as an offset.

Education Code section 15100 authorizes the sale of general obligation bonds, which are secured by statutory obligation, to levy an *ad valorem* property tax sufficient for interest and redemption of the bonds.

Education Code section 15251(a) states that "When collected, all taxes levied shall be paid into the county treasury of the county whose superintendent of schools has jurisdiction over the school district ... and shall be used for the payment of the principal and interest of the bonds and for no other purpose."

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. As of FY 2013-14, the Graduation Requirements program was included in the block grant program. If the district chooses to opt out of the block grant program, we recommend that the district ensure that it applies all related offsetting revenues to claimed costs.

District's Response

The draft audit report disallows \$15,247,465 in claimed construction and acquisition costs and equipment costs. This amount is the cost remaining after the adjustments in Findings 1 and 2. The draft audit report incorrectly characterizes this adjustment as unreported offsetting revenues. However, the draft audit report correctly reports that the District first reduced net facilities costs by 50% representing funds provided by OPSC for construction.

The first stated reason for this total disallowance is: “the facilities costs claimed were charged against local restricted resources; these funds were provided through a local bond measure.” State-mandated budget and financial reporting standards require bond proceeds to be accounted for in restricted accounts. The account code for the bond proceeds is not determinative of the mandate reimbursement issue.

Since the District did not claim costs funded by OPSC, there were no remaining claimed costs subject to state or local funding sources as offsetting savings. Claiming the costs funded by the state proceeds and then subtracting the state proceeds would yield the same results, except perhaps, for how the indirect costs were calculated.

The draft audit report alternately asserts that since the District taxpayers are funding the bond principal and interest amounts, the costs to which that funding is applied is not reimbursable, because “there was no fiscal impact to the district.” Local bond funds are proceeds from taxes like other property taxes (that are used for general fund expenses). The draft audit report does not state a legal difference.

SCO’s Comments

The SCO’s finding and recommendation remains unchanged.

The district’s response does not accurately address the issues discussed in the finding. Though not shown as an offsetting revenue on its claim forms (Form 1), the district reduced construction costs by State bonds administered by the OPSC in its support submitted with its claims. We corrected the presentation of claimed costs by showing the direct costs and associated offsetting revenues separately on the Schedule. As noted in the finding, the district did not report any offsetting revenues provided by local restricted funds (Proposition H). The purpose of the bond measure is restricted to school construction within the district. The unreported revenues of \$15,247,465 represent the portion of construction costs funded by these local bond proceeds. These unreported revenues are in addition to the \$15,247,465 in State bond funds provided by the OPSC.

The following table summarizes the offsetting revenues related to non-reimbursable construction costs:

	Fiscal Year		Total
	2008-09	2009-10	
Reported offsetting revenues - State bonds (OPSC) ¹	\$ (4,307,034)	\$ (10,940,431)	\$ (15,247,465)
Unreported offsetting revenues - Local bonds (Proposition H)	(4,307,034)	(10,940,431)	(15,247,465)
Total	\$ (8,614,068)	\$ (21,880,862)	\$ (30,494,930)

¹ The district reported direct costs net of State bonds on its claims.

As previously noted, notwithstanding the disallowance of non-reimbursable construction costs in Finding 1 and Finding 2, the net costs are still zero because they are fully funded through a combination of State and local bond proceeds. Further, no corresponding offsetting revenues are identified in the Allowable per Audit column of the Schedule because there are no allowable construction costs.

In its response, the district states that “The draft report incorrectly characterizes this adjustment as unreported offsetting revenues.” This statement is inaccurate in that the local restricted bond proceeds (Proposition H) were not reported in the district’s claim forms or in the support submitted with its claims. These local restricted funds should have been reported along with State bonds on the district’s claims as an offsetting revenue. As previously noted, no offsetting revenues are shown on the Schedule because there are no allowable facilities costs.

The district states that “The account code for the bond proceeds is not determinative of the mandate reimbursement issue.” In addition, the district indicates that “Local bond funds are proceeds from taxes like other property taxes (that are used for general fund expenses).” We disagree; the local restricted funds are bond proceeds provided by the approval of Proposition H. The bond measure restricts the use of bond proceeds to school construction within the district. The language of the bond measure states that funds may only be used for constructing and repairing school sites; therefore, as a matter of law, the bond proceeds are restricted and not for general use. The non-reimbursable construction expenditures identified in Finding 1 and Finding 2 were charged against these local restricted funds (Proposition H). The district did not claim any construction costs that were funded by unrestricted general purpose resources. The parameters and guidelines require that reimbursement from any source should be reported as an offset and deducted from the claim. Allowing the claimed construction costs without applying the restricted proceeds of the local bonds as an offset would result in duplicate reimbursement.

Lastly, the Education Code sections cited in the finding provide the statutory framework for the authorization process of issuing general obligation bonds, the intended purposes of an issuance, and general responsibilities of the parties involved in the process. In regard to Proposition H bonds, the district intended to sell bonds for the purposes of school construction. The district’s voters approved of the bond measure that restricts the use of bond proceeds to constructing and repairing school sites. The district used these funds to construct new science buildings and equip the classrooms. The district’s taxpayers are funding both the bond principal and interest through an *ad valorem* property tax levied on area real estate.

**OTHER ISSUE—
Statute of Limitations**

The district’s response includes a comment regarding the three-year statute of limitations to initiate an audit of the mandated cost claims.

District’s Response

This issue is not a finding of the draft audit report. The annual claim for FY 2009-10 was beyond the statute of limitations to start the audit based on when the Controller issued the audit entrance conference notice letter dated January 6, 2015.

Chronology of Annual Claim Action Dates

January 26, 2011	FY 2009-10 annual claim filed by the District
November 29, 2011	SCO payments of \$10 for FY 2009-10 (MA 137098)
January 24, 2012	FY 2009-10 amended claim filed by the District
November 29, 2014	3-year statute to start the audit expires
January 6, 2015	Audit entrance conference notice letter

Government Code Section 17558.5 (as amended by Statutes of 2004, Chapter 890, Section 18, operative January 1, 2005) states:

- (a) A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to the initiation of an audit by the Controller 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 Controller to initiate an audit shall commence to run from the date of initial payment of the claim.* In any case, an audit shall be completed not later than two years after the date that the audit is commenced.

Therefore, the findings are void for FY 2009-10, due to lack of jurisdiction for the audit.

SCO's Comments

The SCO's findings and recommendation remain unchanged. The district believes that the findings for FY 2009-10 are void due to our lack of jurisdiction for the audit. The chronology that the district presents indicates that the SCO made a payment on November 29, 2011. Therefore, the district believes that the statute of limitations to start the audit expired on November 29, 2014.

Although the district quotes Government Code section 17558.5(a) in its response, it emphasizes the second part of the subdivision, which states:

- (a) 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 Controller to initiate an audit shall commence to run from the date of initial payment of the claim.

Instead, the district should have placed its focus on the first part of Government Code section 17558.5(a), which states:

- (a) A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later...

As noted in the district's response, it filed an amended claim for FY 2009-10 that was submitted January 24, 2012. The amended claim was actually received by the SCO January 26, 2012. The Government Code section 17558.5(a) states that the claims are subject to audit by the Controller no later than three years of the date that the actual claim was filed or last amended, whichever is later. The audit notification letter was dated January 6, 2015, within the three-year statutory time limit to initiate the audit.

**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, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program. 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 possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

SCO's Comments

The SCO responded to the district's request separately from this report.

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



COMMITTED TO EXCELLENCE
SINCE 1920

- GOVERNING BOARD MEMBERS

DR. GARY WOODS
JIM KELLY
PRISCILLA SCHREIBER
ROBERT SHIELD
JIM STIERINGER

- SUPERINTENDENT

RALF SWENSON

May 13, 2016

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

Re: Graduation Requirements Audit
FY 2008-09 and FY 2009-10
Grossmont Union High School District

Dear Mr. Spano:

This letter is the response of the Grossmont Union High School District to the draft audit report received by e-mail on May 6, 2016, for the above-referenced program and fiscal years transmitted by the letter dated May 5, 2016, from Jeffrey V. Brownfield, Chief, Division of Audits, State Controller's Office.

All of the amounts claimed for facility construction and fixtures acquisition costs for both fiscal years have been disallowed by the audit. In sum, since the draft audit report does not assert that all of the disallowed claimed costs were excessive or unreasonable, which is the only statutory mandated cost audit standard (Government Code Section 17561(d) (2)), the wrong standard of review was used. An incorrect reduction claim will be needed since most of the adjustments are based on Controller audit policies, the propriety of which can only be determined by appeal to the Commission on State Mandates. The District's incorrect reduction claim will be submitted to the Commission after we receive the final audit report.

Finding 1 Unallowable acquisition of additional space costs

The draft audit report disallows the amount of \$29,633,952 claimed for construction and acquisition costs and related indirect costs of \$467,692, because "the district did not meet the documentation requirements outlined in the program's parameters and guidelines." However, the District actually claimed \$4,307,034 for FY 2008-09 (amended claim) and \$10,509,941 for FY 2009-10 (amended claim). The draft audit report doubles the claimed amounts for purposes of applying offsetting savings in Finding 4.

Notwithstanding, this total disallowance, there are subsidiary findings regarding charter school costs, the "incremental increase percentage" to determine increased science course enrollment and non-science classroom-related construction costs.

Documentation Requirements

<\$29,633,952>

The draft audit report asserts that "the documentation the district provided did not meet the documentation criteria set forth in the program's parameters and guidelines to demonstrate that the additional space was required as a result of the implementation of Education Code section 51225.3. This will be a question of fact and law for the Commission.

Incremental Costs

<\$2,959,887>

The complete disallowance of all costs notwithstanding, the draft audit report asserts that the District's claim for 50% of the construction/acquisition costs, is an incorrect "incremental cost." The draft audit report states that no documentation was provided to support the percentage. The District used 50% because the number of mandated science classes doubled as a matter of law and there is no question of fact remaining.

Instead, the draft audit report applied the percentage increase used to compute the increased staffing costs extrapolated from the One-Quarter Class Load formula. The draft audit report states that this is "reasonable" because "it is evidence based and consistent with the identification of increased staffing and materials and supplies costs." Using the One-Quarter Class Load formula, the audited incremental increase percentages are 40.14% (167/416) for FY 2008-09 and 47% (154.7/329) for FY 2009-10. The audit applies these percentages to the construction costs.

The Quarter Load formula is a reasonable reimbursement methodology established in the parameters and guidelines for the purposes of calculating increased annual teaching costs. It was not approved for use by the Commission for the calculation of construction/acquisition costs. Other than its availability for another purpose, its utility for the construction/acquisition cost calculation is not supported by fact and is contrary to the parameters and guidelines.

Charter School Costs

<\$4,798,082>

The District claimed, and the draft audit report disallows, science classroom construction costs at the Helix High School schoolsite. The draft audit report correctly cites that charter schools are not identified as eligible claimants in the parameters and guidelines for the mandated cost program. The draft audit report wrongly concludes that the District is acting as a "third party" claiming mandate reimbursement on behalf of a charter school.

The Helix Charter High School is not claiming the costs. These costs are on an annual claim submitted by the District. The District is not claiming Helix Charter High School operating (increased teaching) costs. As a matter of law Helix High School is the property of the District, it was not "sold" to the charter school. The charter school leases the property. The District, not the charter school, is responsible for implementing the mandate to have sufficient science classroom facilities. The District facility costs for Helix High School are incorrectly disallowed.

"Non-science" Classroom Construction Costs <\$522,202>

The complete disallowance of all costs notwithstanding, the draft audit report states that the District included non-science classroom construction costs in its claims. Although the specific amounts are not enumerated in the draft audit report, these costs are stated to include construction of locker rooms (boys' gym), school perimeter fencing, parking lot repaving, and installation of parking lot lights as part of its reimbursement claims. The District is in the process of reviewing the invoices related to these items and will respond in the incorrect reduction claim.

Indirect Cost Rate

At this time, the District does not dispute the auditor's reclassification of the construction/acquisition costs as "fixed assets" on Form-1 of the claiming instructions. The net cost effect of this one change is not calculated in the draft audit report.

FINDING 2 Overstated textbooks, materials, and supplies costs

The draft audit report states that the District claimed \$890,267 for supplying the new science classrooms cost component, of which the draft audit report determined \$875,031 is unallowable with the related indirect cost of \$19,728. However, the District actually claimed \$20,349 for FY 2008-09 (amended claim) and \$439,429 for FY 2009-10 (amended claim). The draft audit report doubles the amount for FY 2009-10 for purposes of applying offsetting savings in Finding 4. The draft audit report states the costs are unallowable because the district overstated reported costs, claimed facilities-related materials and supplies costs, and used an unsupported percentage to determine the incremental increased costs resulting from the implementation of the mandate.

Textbooks, Materials, and Supplies Costs <\$1,101>

For FY 2008-09, the District claimed textbooks, materials, and supplies costs of \$20,349, based on the 50% rate discussed in Finding 1. The audit evaluated the invoices and reduced the claimed amount by \$1,101. This amount is not disputed at this time.

Non-reimbursable Materials and Supplies Costs <\$875,031>

For FY 2009-10, the District claimed \$439,429 (most of which is doubled by the audit to \$869,918) in materials and supplies costs which the audit determined to be non-reimbursable due to lack of specific documentation required by the parameters and guidelines to "support that the need for additional space resulted from the mandate." The claimed costs were for fixtures to equip the new science buildings. Because the classroom construction/acquisition costs are disallowed by Finding 1, the draft audit report disallows the fixtures cost here. The District response here is the same as for Finding 1, and it will be a question of law and fact for the Commission.

Incremental Increase <\$56,208>

As is the case for Finding 1, the District used 50% as the "incremental cost." The draft audit report states that no documentation was provided to support the percentage. The draft audit report applied the audited percentage increase used to compute the increased staffing costs based on the One-Quarter Class Load formula (40.14% for FY 2008-09 and 47% for FY 2009-10). The District response here is the same as in Finding 1 for the incremental increase issue.

FINDING 3 Understated teacher staffing costs \$165,731 increase

The District claimed \$2,451,824 for increased staffing for FY 2009-10. The claimed and audited cost calculation is based on the reasonable reimbursement methodology and requires an average science class size statistic for the calculation. During this period, the system used to report statistical data was changed to the California Longitudinal Pupil Achievement Data System (CALPADS), data that was not immediately available to the District for the calculation. The draft audit report recalculated the RRM using an average science class size computed using the statistical data later available from CALPADS. No dispute at this time.

FINDING 4 Unreported offsetting revenues <\$15,247.465>

The draft audit report disallows \$15,247.465 in claimed construction and acquisition costs and equipment costs. This amount is the cost remaining after the adjustments in Findings 1 and 2. The draft audit report incorrectly characterizes this adjustment as unreported offsetting revenues. However, the draft audit report correctly reports that the District first reduced net facilities costs by 50% representing funds provided by OPSC for construction.

The first stated reason for this total disallowance is: "the facilities costs claimed were charged against local restricted resources; these funds were provided through a local bond measure." State-mandated budget and financial reporting standards require bond proceeds to be accounted for in restricted accounts. The account code for the bond proceeds is not determinative of the mandate reimbursement issue.

Since the District did not claim costs funded by OPSC, there were no remaining claimed costs subject to state or local funding sources as offsetting savings. Claiming the costs funded by the state proceeds and then subtracting the state proceeds would yield the same results, except perhaps, for how the indirect costs were calculated.

The draft audit report alternately asserts that since the District taxpayers are funding the bond principal and interest amounts, the costs to which that funding is applied is not reimbursable, because "there was no fiscal impact to the district." Local bond funds are proceeds from taxes like other property taxes (that are used for general fund expenses). The draft audit report does not state a legal difference.

The remaining stated criteria for the adjustment are similarly inconclusive:

The parameters and guidelines (section IX) identify reimbursement from any source, including but not limited to, federal, state, and block grants. Further, in regard to science facilities the guidelines also specifically identify state bond funds as an offset.

The draft audit report does not identify any other federal, state, or block grants applicable to this mandate. The state bond funds are not an offset issue since the claimed costs did not include the costs funded by the OPSC.

Education Code section 15100 authorizes the sale of general obligation bonds, which are secured by statutory obligation, to levy an *ad valorem* property tax sufficient for interest and redemption of the bonds.

The draft audit report does not indicate how this citation affects reimbursement.

Education Code section 15251(a) states that "When collected, all taxes levied shall be paid into the county treasury of the county whose superintendent of schools has jurisdiction over the school district ... and shall be used for the payment of the principal and interest of the bonds and for no other purpose."

The draft audit report does not indicate how this citation affects reimbursement.

There is no relevant or enforceable legal basis cited in the draft audit report for this adjustment.

Statute of Limitations for Audit

This issue is not a finding of the draft audit report. The annual claim for FY 2009-10 was beyond the statute of limitations to start the audit based on when the Controller issued the audit entrance conference notice letter dated January 6, 2015.

Chronology of Annual Claim Action Dates

January 26, 2011	FY 2009-10 annual claim filed by the District
November 29, 2011	SCO payment of \$10 for FY 2009-10 (MA13709B)
January 24, 2012	FY 2009-10 amended claim filed by the District
November 29, 2014	3-year statute to start the audit expires
January 6, 2015	Audit entrance conference notice letter

Government Code Section 17558.5 (as amended by Statutes of 2004, Chapter 890, Section 18, operative January 1, 2005) states:

(a) A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to the initiation of an audit by the Controller 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 Controller to initiate an audit shall commence to run from the date of initial payment of the claim.* In any case, an audit shall be completed not later than two years after the date that the audit is commenced.

Therefore, the findings are void for FY 2009-10, due to lack of jurisdiction for the audit.

Mr. Jim Spano

May 13, 2016

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memoranda, or other writings in effect and applicable to the audit procedures and findings for audits of this mandate program. 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 possession of the agency and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, the agency must state the estimated date and time when the records will be made available.

Sincerely,



Scott Patterson, Deputy Superintendent Business Services
Grossmont Union High School District

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