

# **NEWPORT-MESA UNIFIED SCHOOL DISTRICT**

Revised Audit Report

## **SCHOOL DISTRICT OF CHOICE: TRANSFERS AND APPEALS PROGRAM**

Chapter 160, Statutes of 1993,  
and Chapter 1262, Statutes of 1994

*July 1, 1999, through June 30, 2002*



**JOHN CHIANG**  
California State Controller

March 2011



**JOHN CHIANG**  
**California State Controller**

March 18, 2011

Walt Davenport  
Board President  
Newport-Mesa Unified School District  
2985 Bear Street  
Costa Mesa, CA 92626

Dear Mr. Davenport:

The State Controller's Office audited the claims filed by the Newport-Mesa Unified School District for costs of the legislatively mandated School District of Choice: Transfers and Appeals Program (Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994) for the period of July 1, 1999, through June 30, 2002.

The district claimed \$1,164,919 (\$1,165,919 in costs less a \$1,000 late filing penalty) for the mandated program. Our audit disclosed that the entire amount is allowable. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, contingent upon available appropriations.

This revised final report supersedes the previous revised report dated August 31, 2004. We reconsidered the finding in light of the September 21, 2010 appellate court decision in *Clovis Unified School District et al. v. John Chiang, State Controller*. In the prior final audit report, we did not allow costs supported only with employee certifications prepared at the end or subsequent to the end of each fiscal year without contemporaneous documentation validating the hours claimed. However, the court ruled that the SCO contemporaneous source document rule (CSDR) was invalid prior to the Commission on State Mandates' (CSM) adoption of the rule in the School District of Choice: Transfers and Appeals Program's parameters and guidelines. The CSM adopted the CSDR for this mandate effective July 1, 2005.

In compliance with the court decision, we reconsidered the finding without using the CSDR. We reinstated the entire costs claimed totaling \$1,164,919, consisting of \$1,110,532 in salaries and benefits, and \$55,387 in indirect costs, less a \$1,000 penalty for filing a late claim.

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

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

JVB/sk

cc: Jeffrey Hubbard, Ph.D., Superintendent  
Newport-Mesa Unified School District  
Jeff Trader, Administrative Director of Fiscal Services  
Newport-Mesa Unified School District  
Jean Cook, Financial Analyst  
Newport-Mesa Unified School District  
William M. Habermehl, Superintendent of Schools  
Orange County Department of Education  
Scott Hannan, Director  
School Fiscal Services Division  
California Department of Education  
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Kathy Lynch, Deputy Attorney General  
Attorney General's Office  
Drew Bohan, Executive Director  
Commission on State Mandates  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office.

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# Revised Audit Report

## Summary

The State Controller's Office (SCO) audited the claims filed by the Newport-Mesa Unified School District for costs of the legislatively mandated School District of Choice: Transfers and Appeals Program (Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994) for the period of July 1, 1999, through June 30, 2002.

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In compliance with the court decision, we reconsidered the finding without using the CSDR. We reinstated the entire costs claimed totaling \$1,164,919, consisting of \$1,110,532 in salaries and benefits, and \$55,387 in indirect costs, less a \$1,000 penalty for filing a late claim. The State made no payment to the district. The State will pay allowable costs that exceed the amount paid, contingent upon available appropriations.

## Background

Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994, added and amended Education Code sections 48209.1, 48209.7, 48209.10, 48209.13, and 48209.14 by requiring that any school district may elect to accept inter-district transfers and become a school district of attendance "choice" for pupils from other school districts. This legislation also establishes the statutory right of the parent or guardian of a pupil who is prohibited from transferring to appeal this decision to the county board of education.

If a district makes the election, the choice program requires several nondiscriminatory policies.

- Transfers are to be allowed on a random basis, subject to a numerical limit adopted by either the "sending" district of residence or "receiving" district of choice and may be prohibited if they adversely affect either school district's integration program.

- Although districts are not required to establish new programs to accommodate the pupil transfer, the school district of choice cannot prohibit a transfer of a pupil just because the additional cost of educating the pupil would exceed the amount of additional state aid received as a result of the transfer.
- Resident pupils cannot be displaced by a choice transfer.
- Rejected requests for transfer require that the district provide written notification to the parent or guardian of the reason.
- Once a transfer is granted, the pupil has the right of continuation to other grade levels.

All school districts are required to collect and report data on the number of requests submitted, transfers granted, and transfers denied.

On April 28, 1995, and May 6, 1996, the CSM determined that Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994, imposed a state mandate upon school districts and county offices of education reimbursable under Government Code section 17561.

The parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on July 25, 1996. In compliance with Government Code section 17558, the SCO issues claiming instructions for mandated programs to assist local agencies and school districts in claiming reimbursable costs.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from School District of Choice: Transfers and Appeals Program for the period of July 1, 1999, through June 30, 2002.

We performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable

assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit disclosed no material instances of noncompliance with the requirements outlined above.

For the audit period, Newport-Mesa Unified School District claimed \$1,164,919 (\$1,165,919 in costs less a \$1,000 late filing penalty) for costs of the School District of Choice: Transfers and Appeals Program. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, contingent upon available appropriations.

## **Views of Responsible Officials**

We issued a draft report on July 2, 2004. Superintendent Robert J. Barbot, Ed.D., responded by letter dated July 16, 2004, disagreeing with the audit results. We issued a final audit report on August 31, 2004.

Subsequently, we eliminated the finding in light of the appellate court decision in *Clovis Unified School District et al. v. John Chiang, State Controller*. We reinstated the entire costs claimed totaling \$1,164,919. We notified Jeff Trader, Administrative Director of Fiscal Services, of the changes on November 23, 2010, and e-mailed him a preliminary copy of the revised final report on March 11, 2011. In an e-mail dated March 14, 2011, Mr. Trader indicated that the district had no comment.

## **Restricted Use**

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

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

March 18, 2011

**Revised Schedule 1—  
Summary of Program Costs  
July 1, 1999, through June 30, 2002**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>
<u>July 1, 1999, through June 30, 2000</u>			
Salaries and benefits	\$ 236,373	\$ 236,373	\$ —
Indirect costs	7,706	7,706	—
Total direct and indirect costs	244,079	244,079	—
Less late penalty	(1,000)	(1,000)	—
Total program costs	<u>\$ 243,079</u>	243,079	<u>\$ —</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 243,079</u>	
<u>July 1, 2000, through June 30, 2001</u>			
Salaries and benefits	\$ 241,273	\$ 241,273	\$ —
Indirect costs	17,999	17,999	—
Total program costs	<u>\$ 259,272</u>	259,272	<u>\$ —</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 259,272</u>	
<u>July 1, 2001, through June 30, 2002</u>			
Salaries and benefits	\$ 632,886	\$ 632,886	\$ —
Indirect costs	29,682	29,682	—
Total program costs	<u>662,568</u>	662,568	<u>\$ —</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 662,568</u>	
<u>Summary: July 1, 1999, through June 30, 2002</u>			
Salaries and benefits	\$ 1,110,532	\$ 1,110,532	\$ —
Indirect costs	55,387	55,387	—
Total direct and indirect costs	1,165,919	1,165,919	—
Less late penalty	(1,000)	(1,000)	—
Total program costs	<u>\$ 1,164,919</u>	1,164,919	<u>\$ —</u>
Less amount paid by the State		—	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,164,919</u>	

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