

SAN DIEGO UNIFIED SCHOOL DISTRICT

Audit Report

STANDARDIZED TESTING AND REPORTING PROGRAM

Chapter 828, Statutes of 1997

July 1, 1997, through June 30, 2004



JOHN CHIANG
California State Controller

March 2010



JOHN CHIANG
California State Controller

March 26, 2010

Richard Barrera, President
Board of Education
San Diego Unified School District
4100 Normal Street
San Diego, CA 92103

Dear Mr. Barrera:

The State Controller's Office audited the costs claimed by San Diego Unified School District for the legislatively mandated Standardized Testing and Reporting Program (Chapter 828, Statutes of 1997) for the period of July 1, 1997, through June 30, 2004.

The district claimed \$7,358,144 for the mandated program. Our audit disclosed that \$779,056 is allowable and \$6,579,088 is unallowable. The costs are unallowable primarily because the district did not provide support for its claims. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$779,056, contingent upon available appropriations.

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

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Bill Kowba, Interim Superintendent
San Diego Unified School District
Norma Casas, Manager of Resource Development
Finance and Business Services, San Diego Unified School District
Ralph E. Ward, Ed.D., County Superintendent of Schools
San Diego County Office of Education
Scott Hannan, Director
School Fiscal Services Division
California Department of Education
Carol Bingham, Director
Fiscal Policy Division
California Department of Education
Thomas Todd, Principal Program Budget Analyst
Education Systems Unit
Department of Finance
Ginny Brummels, Section Manager
Division of Accounting and Reporting
State Controller's Office

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San Diego Unified School District for the legislatively mandated Standardized Testing and Reporting Program (Chapter 828, Statutes of 1997) for the period of July 1, 1997, through June 30, 2004.

The district claimed \$7,358,144 for the mandated program. Our audit disclosed that \$779,056 is allowable and \$6,579,088 is unallowable. The costs are unallowable primarily because the district did not provide support for its claims. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$779,056, contingent upon available appropriations.

Background

Chapter 828, Statutes of 1997, amended Education Code sections 60607, 60609, 60615, and 60630, and added Education Code sections 60640 through 60641, and 60643. Chapter 828, Statutes of 1997, and the implementing regulations at California Code of Regulations, Title 5, sections 850 through 904, established the Standardized Testing and Reporting (STAR) Program related to achievement testing that school districts must administer to pupils in the state.

The STAR Program requires school districts, between March 15 and May 15 of each year, to test all students in grades 2 through 11 with a nationally normed achievement test designated by the State Board of Education. School districts administered the Stanford Achievement Test, Ninth Edition (SAT-9) test in English to all pupils enrolled in grades 2 through 11 from fiscal year (FY) 1997-98 through FY 2001-02. The California Achievement Test, Sixth Edition Survey (CAT/6) replaced the SAT-9 test effective for FY 2002-03. School districts administered the CAT/6 test in English to all pupils enrolled in grades 2 through 11 for FY 2002-03 and FY 2003-04. In addition, school districts administered an additional test, the Spanish Assessment of Basic Education, Second Edition (SABE/2), to every Spanish-speaking pupil of limited English proficiency who was enrolled in grades 2 through 11 if the pupil was initially enrolled in any public school in the state fewer than 12 months before the English SAT-9 test was given. School districts are also required to engage in numerous activities related to test administration and reporting.

On August 24, 2000, the Commission on State Mandates (CSM) determined that the legislation imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. CSM adopted the parameters and guidelines on January 24, 2002. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

**Objective, Scope,
and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Standardized Testing and Reporting Program for the period of July 1, 1997, through June 30, 2004.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

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

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

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by generally accepted government auditing standards. However, the district did not submit a representation letter.

Conclusion

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

For the audit period, San Diego Unified School District claimed \$7,358,144 for costs of the Standardized Testing and Reporting Program. Our audit disclosed that \$779,056 is allowable and \$6,579,088 is unallowable.

For the fiscal year (FY) 1997-98 through FY 2002-03 claims, the State made no payment to the district. Our audit disclosed that \$0 is allowable.

For the FY 2003-04 claim, the State made no payment to the district. Our audit disclosed that \$779,056 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$779,056, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on February 5, 2010. Arthur Palkowitz, Assistant General Counsel, responded by letter dated February 26, 2010 (Attachment), 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 San Diego Unified 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
Chief, Division of Audits

March 26, 2010

**Schedule 1—
Summary of Program Costs
July 1, 1997, through June 30, 2004**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1997, through June 30, 1998</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 169,197	\$ —	\$ (169,197)	Finding 1
Test materials, supplies, and equipment	138,222	—	(138,222)	Finding 1
Pretest and post-test coordination	137,017	—	(137,017)	Finding 1
Test administration	22,618	—	(22,618)	Finding 1
Reporting and recordkeeping	457,083	—	(457,083)	Finding 1
Total salaries and benefits	924,137	—	(924,137)	Finding 1
Materials and supplies:				
Test materials, supplies, and equipment	134,046	—	(134,046)	Finding 2
Reporting and recordkeeping	31,978	—	(31,978)	Finding 2
Total materials and supplies	166,024	—	(166,024)	Finding 2
Fixed assets:				
Test materials, supplies, and equipment	382	—	(382)	Finding 4
Total direct costs	1,090,543	—	(1,090,543)	
Indirect costs	47,439	—	(47,439)	
Total direct and indirect costs	1,137,982	—	(1,137,982)	
Less offsetting revenues/reimbursements	(422,115)	(699,737)	(277,622)	Finding 6
Adjustment to eliminate negative balance	—	699,737	699,737	
Total program costs	\$ 715,867	—	\$ (715,867)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ —		
<u>July 1, 1998, through June 30, 1999</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 363,551	\$ —	\$ (363,551)	Finding 1
Test materials, supplies, and equipment	17,860	—	(17,860)	Finding 1
Pretest and post-test coordination	297,346	—	(297,346)	Finding 1
Test administration	155,491	—	(155,491)	Finding 1
Reporting and recordkeeping	327,257	—	(327,257)	Finding 1
Total salaries and benefits	1,161,505	—	(1,161,505)	Finding 1
Materials and supplies:				
Test materials, supplies, and equipment	648,270	—	(648,270)	Finding 2
Reporting and recordkeeping	33,156	—	(33,156)	Finding 2
Total materials and supplies	681,426	—	(681,426)	Finding 2

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1998, through June 30, 1999 (continued)</u>				
Fixed assets:				
Test materials, supplies, and equipment	21,096	—	(21,096)	Finding 4
Total direct costs	1,864,027	—	(1,864,027)	
Indirect costs	81,085	—	(81,085)	
Total direct and indirect costs	1,945,112	—	(1,945,112)	
Less offsetting revenues/reimbursements	(699,737)	(565,839)	133,898	Finding 6
Adjustment to eliminate negative balance	—	565,839	565,839	
Total program costs	<u>\$ 1,245,375</u>	—	<u>\$ (1,245,375)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 459,730	\$ —	\$ (459,730)	Finding 1
Test materials, supplies, and equipment	2,972	—	(2,972)	Finding 1
Pretest and post-test coordination	309,619	—	(309,619)	Finding 1
Test administration	119,057	—	(119,057)	Finding 1
Reporting and recordkeeping	243,408	—	(243,408)	Finding 1
Total salaries and benefits	1,134,786	—	(1,134,786)	Finding 1
Materials and supplies:				
Test materials, supplies, and equipment	553,699	—	(553,699)	Finding 2
Reporting and recordkeeping	33,193	—	(33,193)	Finding 2
Total materials and supplies	586,892	—	(586,892)	Finding 2
Fixed assets:				
Test materials, supplies, and equipment	807	—	(807)	Finding 4
Total direct costs	1,722,485	—	(1,722,485)	
Indirect costs	72,689	—	(72,689)	
Total direct and indirect costs	1,795,174	—	(1,795,174)	
Less offsetting revenues/reimbursements	(788,077)	(180,881)	607,196	Finding 6
Adjustment to eliminate negative balance	—	180,881	180,881	
Total program costs	<u>\$ 1,007,097</u>	—	<u>\$ (1,007,097)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 362,266	\$ —	\$ (362,266)	Finding 1
Test materials, supplies, and equipment	4,396	—	(4,396)	Finding 1
Pretest and post-test coordination	357,174	—	(357,174)	Finding 1
Test administration	230,514	—	(230,514)	Finding 1
Reporting and recordkeeping	199,980	—	(199,980)	Finding 1
Total salaries and benefits	1,154,330	—	(1,154,330)	Finding 1
Materials and supplies:				
Training, policies, and procedures	16	—	(16)	Finding 2
Test materials, supplies, and equipment	48,001	—	(48,001)	Finding 2
Reporting and recordkeeping	37,279	—	(37,279)	Finding 2
Total materials and supplies	85,296	—	(85,296)	Finding 2
Fixed assets:				
Test materials, supplies, and equipment	74,747	—	(74,747)	Finding 4
Total direct costs	1,314,373	—	(1,314,373)	
Indirect costs	54,546	—	(54,546)	
Total direct and indirect costs	1,368,919	—	(1,368,919)	
Less offsetting revenues/reimbursements	(259,139)	(153,869)	105,270	Finding 6
Adjustment to eliminate negative balance	—	153,869	153,869	
Total program costs	\$ 1,109,780	—	\$ (1,109,780)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ —		
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 277,973	\$ —	\$ (277,973)	Finding 1
Test materials, supplies, and equipment	95,117	—	(95,117)	Finding 1
Pretest and post-test coordination	436,603	—	(436,603)	Finding 1
Test administration	259,667	—	(259,667)	Finding 1
Reporting and recordkeeping	111,248	—	(111,248)	Finding 1
Total salaries and benefits	1,180,608	—	(1,180,608)	Finding 1
Materials and supplies:				
Training, policies, and procedures	56	—	(56)	Finding 2
Test materials, supplies, and equipment	106,687	—	(106,687)	Finding 2
Reporting and recordkeeping	40,511	—	(40,511)	Finding 2
Total materials and supplies	147,254	—	(147,254)	Finding 2

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002 (continued)</u>				
Fixed assets:				
Test materials, supplies, and equipment	23,115	—	(23,115)	Finding 4
Total direct costs	1,350,977	—	(1,350,977)	
Indirect costs	42,421	—	(42,421)	
Total direct and indirect costs	1,393,398	—	(1,393,398)	
Less offsetting revenues/reimbursements	(267,134)	(162,443)	104,691	Finding 6
Adjustment to eliminate negative balance	—	162,443	162,443	
Total program costs	<u>\$ 1,126,264</u>	—	<u>\$ (1,126,264)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 254,317	\$ —	\$ (254,317)	Finding 1
Test materials, supplies, and equipment	183,263	—	(183,263)	Finding 1
Pretest and post-test coordination	286,352	—	(286,352)	Finding 1
Test administration	240,743	—	(240,743)	Finding 1
Reporting and recordkeeping	141,519	—	(141,519)	Finding 1
Total salaries and benefits	1,106,194	—	(1,106,194)	Finding 1
Materials and supplies:				
Test materials, supplies, and equipment	130,904	—	(130,904)	Finding 2
Reporting and recordkeeping	55,559	—	(55,559)	Finding 2
Total materials and supplies	186,463	—	(186,463)	Finding 2
Total direct costs	1,292,657	—	(1,292,657)	
Indirect costs	25,442	—	(25,442)	
Total direct and indirect costs	1,318,099	—	(1,318,099)	
Less offsetting revenues/reimbursements	(251,460)	(172,573)	78,887	Finding 6
Adjustment to eliminate negative balance	—	172,573	172,573	
Total program costs	<u>\$ 1,066,639</u>	—	<u>\$ (1,066,639)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
July 1, 2003, through June 30, 2004				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 303,194	\$ 21,626	\$ (281,568)	Finding 1
Test materials, supplies, and equipment	288,536	—	(288,536)	Finding 1
Pretest and post-test coordination	282,455	561,050	278,595	Finding 1
Test administration	151,448	307,355	155,907	Finding 1
Reporting and recordkeeping	144,490	37,393	(107,097)	Finding 1
Total salaries and benefits	1,170,123	927,424	(242,699)	Finding 1
Materials and supplies:				
Test materials, supplies, and equipment	92,073	—	(92,073)	Finding 2
Reporting and recordkeeping	—	47,629	47,629	Finding 2
Total materials and supplies	92,073	47,929	(44,444)	Finding 2
Contract services:				
Reporting and recordkeeping	60,570	—	(60,570)	Finding 3
Fixed assets:				
Test materials, supplies, and equipment	5,882	—	(5,882)	Finding 4
Total direct costs	1,328,648	975,053	(353,595)	
Indirect costs	37,327	31,104	(6,223)	Finding 5
Total direct and indirect costs	1,365,975	1,006,157	(359,818)	
Less offsetting revenues/reimbursements	(278,853)	(227,101)	51,752	Finding 6
Total program costs	\$ 1,087,122	779,056	\$ (308,066)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		\$ 779,056		

Summary: July 1, 1997, through June 30, 2004

Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 2,190,228	\$ 21,626	\$ (2,168,602)	
Test materials, supplies, and equipment	730,366	—	(730,366)	
Pretest and post-test coordination	2,106,566	561,050	(1,545,516)	
Test administration	1,179,538	307,355	(872,183)	
Reporting and recordkeeping	1,624,985	37,393	(1,587,592)	
Total salaries and benefits	7,831,683	927,424	(6,904,259)	
Materials and supplies:				
Training, policies, and procedures	72	—	(72)	
Test materials, supplies, and equipment	1,713,680	—	(1,713,680)	
Reporting and recordkeeping	231,676	47,629	(184,047)	
Total materials and supplies	1,945,428	47,629	(1,897,799)	

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 1997, through June 30, 2004 (continued)</u>				
Contract services:				
Reporting and recordkeeping	60,570	—	(60,570)	
Fixed assets:				
Test materials, supplies, and equipment	126,029	—	(126,029)	
Total direct costs	9,963,710	975,053	(8,988,657)	
Indirect costs	360,949	31,104	(329,845)	
Total direct and indirect costs	10,324,659	1,006,157	(9,318,502)	
Less offsetting revenues/reimbursements	(2,966,515)	(2,162,443)	804,072	
Adjustment to eliminate negative balance	—	1,935,342	1,935,342	
Total program costs	<u>\$ 7,358,144</u>	779,056	<u>\$ (6,579,088)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 779,056</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unsupported salaries and benefits and related indirect costs

The district claimed \$7,831,683 in salaries and benefits and \$286,358 in related indirect costs. The district did not provide support for salaries and benefits for the audit period. The district did not claim all site coordinators who performed reimbursable Standardized Testing and Reporting (STAR) activities at all sites. In addition, the district erroneously claimed teachers and administrators for site recordkeeping activities that were performed by school clerks and registrars.

The district claimed salary and benefit costs for administering the following STAR tests: (1) California Standards Tests (CST); (2) California Alternate Performance Assessment (CAPA); (3) California Achievement Test, Sixth Edition Survey (CAT/6 Survey); and (4) Spanish Assessment of Basic Education, Second Edition (SABE/2). The CST and CAPA tests are not reimbursable because they were not pled in the test claim that created this mandate. The district accounted for the costs of the STAR tests collectively, without separately identifying costs by test. Consequently, the district claimed costs in excess of the mandated portion of the STAR program.

We developed alternative methods to determine allowable salaries, benefits, and related indirect costs given the district's inadequate documentation. We obtained a 10% random sample of elementary schools, middle schools, high schools, and alternative schools to observe and interview those that actually performed the mandate in previous STAR testing periods. The district requested that it be allowed to support its claims with a prospective time study of the sampled sites' activities for its Spring 2008 STAR testing supported with contemporaneous time logs of STAR activities. The district developed the reimbursable percentages at each site based on the percentage of mandated tests over all STAR tests. We audited the time study and reimbursement rates calculated by the district.

The district provided the contemporaneous apportionment information, signed by principals and STAR site coordinators, for all sites as support for its fiscal year (FY) 2003-04 claim. The district also provided actual pay and benefits information, as well as resource codes for all employees claimed. We used the number of tested students published on the California Department of Education's (CDE) STAR Web site for SAT-9, CAT/6, and SABE/2 together with the audited time standards, reimbursement rates, and actual FY 2003-04 pay and employee information provided by the district to calculate allowable salaries, benefits, and related indirect costs for the district's FY 2003-04 claim.

The district did not support any of the costs claimed (\$6,661,560 in salaries and benefits and \$249,031 in related indirect costs) for the period of July 1, 1997, through June 30, 2003.

The district claimed \$571,312 in salaries and benefits for the activity "Test materials, supplies, and equipment" for FY 2000-01 through FY 2003-04. This activity was ineligible for reimbursement as of December 15, 1999.

The following table summarizes the overstated claimed costs for salaries and benefits and related indirect costs by reimbursable activity:

	Fiscal Year						Total	
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03		2003-04
Salaries and benefits:								
Training, policies, and procedures	\$ (169,197)	\$ (363,551)	\$ (459,730)	\$ (362,266)	\$ (277,973)	\$ (254,317)	\$ (281,568)	\$ (2,168,602)
Test materials, supplies, and equipment	(138,222)	(17,860)	(2,972)	(4,396)	(95,117)	(183,263)	(288,536)	(730,366)
Pretest and post-test coordination	(137,017)	(297,346)	(309,619)	(357,174)	(436,603)	(286,352)	278,595	(1,545,516)
Test administration	(22,618)	(155,491)	(119,057)	(230,514)	(259,667)	(240,743)	155,907	(872,183)
Reporting and recordkeeping	(457,083)	(327,257)	(243,408)	(199,980)	(111,248)	(141,519)	(107,097)	(1,587,592)
Total salaries and benefits	(924,137)	(1,161,505)	(1,134,786)	(1,154,330)	(1,180,608)	(1,106,194)	(242,699)	(6,904,259)
Indirect costs	(40,200)	(50,525)	(47,888)	(47,905)	(37,071)	(25,442)	(7,742)	(256,773)
Audit adjustment	\$ (964,337)	\$ (1,212,030)	\$ (1,182,674)	\$ (1,202,235)	\$ (1,217,679)	\$ (1,131,636)	\$ (250,441)	\$ (7,161,032)

The program's parameters and guidelines (section VI.A.) state:

... all incurred costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities. Documents may include, but are not limited to, worksheets, employee time records or time logs, cost allocation reports (system generated), invoices, receipts, purchase orders, contracts, agendas, training packets with signatures and logs of attendees, calendars, declarations, and data relevant to the reimbursable activities. . . .

The parameters and guidelines (section V.A.1.) state:

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

The parameters and guidelines (section IV.B.) state that the reimbursement period for the test materials, supplies, and equipment component is January 2, 1998, through December 15, 1999.

Recommendation

We recommend that the district ensure that all costs related to the mandated program are properly reported, supported with source documents, and reimbursable under the mandate.

District's Response

The district did not respond to the finding.

**FINDING 2—
Overstated materials
and supplies and
related indirect costs**

The district claimed \$1,945,428 in materials and supplies and \$69,795 in related indirect costs for the audit period. Our audit determined that materials and supplies were overstated by \$1,897,799.

The district did not provide support for all materials and supplies when it submitted the claims. During the audit fieldwork, the district provided copies of vendor invoices and purchase orders for the audit period; however, proofs of payment and resource codes charged for claimed expenses were provided only for FY 2003-04.

Additionally, the district claimed \$377,665 in materials and supplies and \$5,342 in related indirect costs for FY 2000-01 through FY2003-04 for the mandated activity of “Test materials, supplies, and equipment.” This particular activity was ineligible for reimbursement as of December 15, 1999, according to the program parameters and guidelines.

The following table summarizes the net overstatement for materials and supplies and related indirect costs by reimbursable activity:

	Fiscal Year							Total
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	
Materials and supplies:								
Training, policies, and procedures	\$ —	\$ —	\$ —	\$ (16)	\$ (56)	\$ —	\$ —	\$ (72)
Test materials, supplies, and equipment	(134,046)	(648,270)	(553,699)	(48,001)	(106,687)	(130,904)	(92,073)	(1,713,680)
Reporting and recordkeeping	(31,978)	(33,156)	(33,193)	(37,279)	(40,511)	(55,559)	47,629	(184,047)
Total materials and supplies	(166,024)	(681,426)	(586,892)	(85,296)	(147,254)	(186,463)	(44,444)	(1,897,799)
Indirect costs*	(7,222)	(29,642)	(24,767)	(3,540)	(4,624)	—	—	(69,795)
Audit adjustment	<u>\$(173,246)</u>	<u>\$(711,068)</u>	<u>\$(611,659)</u>	<u>\$ (88,836)</u>	<u>\$(151,878)</u>	<u>\$(186,463)</u>	<u>\$ (44,444)</u>	<u>\$(1,967,594)</u>

* For FY 2002-03 and FY 2003-04, the district did not claim indirect costs on materials and supplies. We determined that the entire materials and supplies cost claimed for FY 2002-03 was unallowable. We also determined that only a portion of the cost claimed for FY 2003-04 was unallowable (see Finding 5).

The parameters and guidelines (section VI.A.) state:

... all incurred costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities. Documents may include, but are not limited to, worksheets, employee time records or time logs, cost allocation reports (system generated), invoices, receipts, purchase orders, contracts, agendas, training packets with signatures and logs of attendees, calendars, declarations, and data relevant to the reimbursable activities. . . .

The parameters and guidelines (section IV.E.) state:

The cost of materials and supplies used for reporting (including paper and envelopes), the cost of postage for mailing reports to parents, and the cost of computer programming used for reporting purposes is reimbursable under this activity.

The parameters and guidelines (section V.A.2.) state:

Report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities.

The parameters and guidelines (section IV.B.) state that the reimbursement period for the test materials, supplies, and equipment component is January 2, 1998, through December 15, 1999.

Recommendation

We recommend that the district ensure that all costs related to the mandated program are properly reported, supported with source documents, and reimbursable under the mandate.

District's Response

The district did not respond to the finding.

FINDING 3— Overstated contract services

The district claimed \$60,570 in contract services for the audit period. Our audit determined that the entire amount was overstated.

The district did not provide support for the \$60,570 in contract services claimed for FY 2003-04 for the reporting and recordkeeping activity. The detailed list submitted with the claim did not agree with the claim summary.

The following table summarizes the net overstatement for contract services by reimbursable activity:

	Fiscal Year 2003-04
Contract services:	
Reporting and recordkeeping	\$ (60,570)
Indirect costs*	—
Audit adjustment	<u>\$ (60,570)</u>

* The district did not claim indirect costs on contract services for FY 2003-04.

The parameters and guidelines (section VI.A.) state:

. . . all incurred costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities. Documents may include, but are not limited to, worksheets, employee time records or time logs, cost allocation reports (system generated), invoices, receipts, purchase orders, contracts, agendas, training packets with signatures and logs of attendees, calendars, declarations, and data relevant to the reimbursable activities. . . .

The parameters and guidelines (section V.A.3.) state:

Report the name of the contractor and services performed to implement the reimbursable activities. Attach a copy of the contract to the claim. If the contractor bills for time and materials, report the number of hours spent on the activities and all costs charged. If the contract is a fixed price, report the dates when services were performed and itemize all costs for those services.

Recommendation

We recommend that the district ensure that all costs related to the mandated program are properly reported, supported with source documents, and reimbursable under the mandate.

District's Response

The district did not respond to the finding.

**FINDING 4—
Overstated fixed
assets and related
indirect costs**

The district claimed \$126,029 in fixed assets and \$4,796 in related indirect costs for the audit period. Our audit determined that the entire amount was unallowable for the reasons noted below.

The district did not provide support for all fixed assets claimed for the audit period. For FY 2003-04, the district also did not provide support for fixed assets and did not claim indirect costs on fixed assets. Additionally, the district claimed \$103,744 in fixed assets and \$3,827 in related indirect costs for FY 2000-01 through FY 2003-04, past the reimbursement period for the mandated activity, "Test materials, supplies, and equipment."

The following table summarizes the net overstatement for fixed assets and related indirect costs by reimbursable activity:

	Fiscal Year					Total	
	1997-98	1998-99	1999-2000	2000-01	2001-02		2003-04
Fixed assets: Test materials, supplies, and equipment	\$ (382)	\$ (21,096)	\$ (807)	\$ (74,747)	\$ (23,115)	\$ (5,882)	\$ (126,029)
Indirect costs*	(17)	(918)	(34)	(3,101)	(726)	—	(4,796)
Audit adjustment	\$ (399)	\$ (22,014)	\$ (841)	\$ (77,848)	\$ (23,841)	\$ (5,882)	\$ (130,825)

* For FY 2003-04, the district did not claim indirect costs on fixed assets.

The parameters and guidelines (section VI.A.) state:

. . . all incurred costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities. Documents may include, but are not limited to, worksheets, employee time records or time logs, cost allocation reports (system generated), invoices, receipts, purchase orders, contracts, agendas, training packets with signatures and logs of attendees, calendars, declarations, and data relevant to the reimbursable activities. . . .

The parameters and guidelines (section IV.B.) state:

Test materials, supplies, and equipment reimbursement period is from January 2, 1998 to December 15, 1999.

The parameters and guidelines (section V.A.4.) state:

Report the purchase price paid for fixed assets and equipment (including computers) necessary to implement the reimbursable activities. The purchase price includes taxes, delivery costs, and installation costs. If the fixed asset or equipment is also used for

purposes other than the reimbursable activities, only the pro-rata portion of the purchase price used to implement the reimbursable activities can be claimed.

Recommendation

We recommend that the district ensure that all costs related to the mandated program are properly reported, supported with source documents, and reimbursable under the mandate.

District’s Response

The district did not respond to the finding.

**FINDING 5—
Unclaimed indirect
costs on materials
and supplies for
FY 2003-04**

The district did not claim \$1,519 in indirect costs for FY 2003-04.

The district relied on an error in the FY 2003-04 claiming instructions that applied the CDE-approved indirect cost rate only to the salaries and benefits instead of all direct costs. For FY 2003-04, the 3.19% indirect cost rate should have been applied to the allowable reporting and recordkeeping materials and supplies amount of \$47,629.

The following table summarizes the net understatement for indirect cost by reimbursable activity:

	Fiscal Year 2003-04
Indirect cost on allowable materials and supplies:	
Reporting and recordkeeping	\$ 1,519
Audit adjustment	<u>\$ 1,519</u>

The parameters and guidelines (section V.B.) state:

After direct costs have been determined and assigned to other activities, as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated as an indirect cost if any other cost incurred for the same purpose, in like circumstances has been claimed as a direct cost. Indirect costs include: (a) the indirect costs originating in each department or agency of the governmental unit carrying out state mandated programs, and (b) the costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs.

Recommendation

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

District’s Response

The district did not respond to the finding.

**FINDING 6—
Overstated offsetting
revenues/
reimbursements**

The district erroneously claimed CDE STAR apportionment amounts in their entirety, rather than the mandated portion for the audit period. In addition, the district did not disclose claimed employees funded 100% with restricted resources as offsetting revenues on its reimbursement requests.

The CDE paid the district \$2,798,073 in STAR apportionments. We determined that \$2,097,694 is the mandated portion of the STAR Program.

The following table summarizes the net overstatement for mandated portion of STAR apportionments and offsetting revenues from claimed employees funded 100% with restricted resources:

	Fiscal Year							Total
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	
Offsetting revenues/ reimbursements: CDE apportionments	\$ 699,737	\$ 788,077	\$ 255,482	\$ 267,134	\$ 251,460	\$ 272,196	\$ 263,987	\$ 2,798,073
Supported employee costs funded 100% with restricted resources	—	—	—	—	—	—	105,283 ¹	105,283
Subtotal	699,737	788,077	255,482	267,134	251,460	272,196	369,270	\$ 2,903,356
Mandated percentage	× (100)%	× (71.8)%	× (70.8)%	× (57.6)%	× (64.6)%	× (63.4)%	× (61.5)%	
Allowable offsetting revenues/reimbursements	(699,737)	(565,839)	(180,881)	(153,869)	(162,443)	(172,572)	(227,101)	\$(2,162,443)
Claimed offsetting revenues/reimbursements	422,115	699,737	788,077	259,139	267,134	251,460	278,853	2,966,515
Audit adjustment	<u>\$(277,622)</u>	<u>\$ 133,898</u>	<u>\$ 607,196</u>	<u>\$ 105,270</u>	<u>\$ 104,690</u>	<u>\$ 78,888</u>	<u>\$ 51,752</u>	<u>\$ 804,072</u>

¹ Includes related indirect costs.

The parameters and guidelines (section VII) state:

Any offsetting savings the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, including but not limited to, service fees collected, federal funds and other state funds shall be identified and deducted from the claim.

Recommendation

We recommend that the district offset all applicable revenues against its mandated program costs.

District's Response

The district did not respond to the finding.

**OTHER ISSUE—
Statute of limitations**

The district believes that as of April 1, 2008, the period of time in which the SCO may audit the STAR program for FY 1997-98 through FY 2003-04 under Government Code section 17558.5, subdivision (a), has lapsed. This section states:

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.

The district indicated that it received CDE apportionment payments annually from FY 1997-98 through FY 2003-04, which were deducted from the district's annual reimbursement claims consistent with the program's parameters and guidelines. The district believes that the apportionment payments constitute a payment to a claimant for the program for the fiscal year. Therefore, the district contends that upon the initiation of the SCO audit of its STAR program in April 2008, more than three years had lapsed since the district filed or last amended its STAR program claim for FY 1997-98 through FY 2003-04.

SCO's Comment

During the audit period, the Legislature did not appropriate any mandate-related funds for the STAR program; therefore, the statute of limitations to initiate an audit had not lapsed prior to the SCO start of the STAR program audit in April 2008.

Payments to school districts for state-mandated programs are paid from a mandate-related Budget Act appropriation under Item 6110-295-001. For example, for FY 2003-04, Item 6110-295-001 states:

For local assistance, Department of Education (Proposition 98), for reimbursement, in accordance with the provisions of Section 6 of Article XIII B of the California Constitution of Section 17561 of the Government Code of the costs of any new program or increased level of service of an existing program mandated by statute or executive order, for disbursement by the State Controller. . . .

The SCO acknowledges that the district received payments from the CDE for the STAR program. However, CDE's STAR apportionment payments made from the Budget Act appropriation, Item 6110-113-0890, do not constitute a state-mandated program payment. Furthermore, these payments are not contingent upon a district filing a mandate claim. Therefore, such payments to districts from the CDE do not start the time period in which the Controller must initiate an audit pursuant to Government Code section 17558.5, subdivision (a).

Reference to “. . . if no funds are appropriated and no payment is made for the program. . . .” in Government Code section 17558.5, subdivision (a), relates to mandate-related appropriation and payments pursuant to Part 7, Chapter 4, of the Government Code. CDE STAR apportionment payments are not a mandate-related payment.

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



San Diego Unified
SCHOOL DISTRICT

LEGAL SERVICES

Arthur M. Palkowitz
Assistant General Counsel
619.725.5630
FAX: 619.725.5639
apalkowitz@sandi.net

February 26, 2010

Jim L. Spano, Chief, Mandate Cost Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

RE: *Standardized Testing and Reporting Program- Draft Audit Report*

Dear Mr. Spano:

San Diego Unified School District ("SDUSD") acknowledges receipt of the above mentioned draft audit report dated February 5, 2010, postmarked February 8, 2010 and received by our office on February 16, 2010. We submit the following comments in response to the sixteen page draft audit report.

The audit report states the audit was conducted "under the authority of Government Code Sections 177558.5 and 17561." Government Code Sections 177558.5 states as follows:

17558.5. (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.

The audit report omits the date of the commencement of the audit of April 1, 2008. San Diego Unified School District (SDUSD) contends the period of time to conduct the audit for the STAR Program for the fiscal years 1997 to 2004 has lapsed. Such contention is based on the payments to SDUSD for the STAR Program, thereby requiring the audits be commenced within three years after the date the actual reimbursement claim is filed or last amended, whichever is later.

The audit report, under finding number 6 on page 16 states, "CDE paid the district a total of \$2,798,073 STAR apportionments. We determined that \$2,097,694 is the mandated portion of the STAR program."

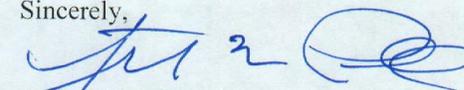
SDUSD received payments annually from fiscal years 1997-98 to 2003-04 totaling \$2,798,073. These payments were deducted by SDUSD from their annual reimbursement claims. The annual apportionments received by the school districts for the STAR Program are payments that are to be deducted from the annual claims. The parameters and guidelines (section VII) state:

Any offsetting savings the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, including but not limited to, service fees collected, federal funds and other state funds shall be identified and deducted from the claim.

SDUSD contends state funds were appropriated and paid. Accordingly, the period of time to conduct the audit lapsed on December 31, 2004 for fiscal years 97/98 through 01/02, December 31, 2005 for fiscal year 02/03 and January 15, 2008 for fiscal year 03/04.

Thank you for your cooperation.

Sincerely,



Arthur M. Palkowitz
Assistant General Counsel

AMP/lo

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

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