

PALMDALE SCHOOL DISTRICT

Audit Report

SCHOOL DISTRICT OF CHOICE: TRANSFERS AND APPEALS PROGRAM

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

July 1, 2001, through June 30, 2002



STEVE WESTLY
California State Controller

October 2006



STEVE WESTLY
California State Controller

October 6, 2006

Jack Gyves, Ed.D., Superintendent
Palmdale School District
39139 N. 10th Street East
Palmdale, CA 93550

Dear Dr. Gyves:

The State Controller's Office audited the costs claimed by the Palmdale School District for 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, 2001, through June 30, 2002.

The district claimed and was paid \$270,513 for the mandated program. Our audit disclosed that the entire amount is unallowable, primarily because the district claimed ineligible and unsupported costs. The district should return \$270,513 to the State.

If you disagree with the audit finding, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). 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 COSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

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

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/vb

cc: Donald C. Crane, Ph.D.

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Palmdale School District

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Palmdale School District for 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, 2001, through June 30, 2002. The last day of fieldwork was October 19, 2005.

The district claimed and was paid \$270,513 for the mandated program. Our audit disclosed that the entire amount is unallowable, primarily because the district claimed ineligible and unsupported costs. The district should return \$270,513 to the State.

Background

Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994, added and amended by *Education Code* Sections 48209.1, 48209.7, 48209.10, 48209.13, and 48209.14. The law requires 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. They also establish 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 Commission on State Mandates (COSM) determined that Chapter 160, Statutes of 1993, and Chapter 1262, Statutes of 1994, imposed a state mandate reimbursable under *Government Code* Section 17561.

Parameters and Guidelines establishes the state mandate and defines criteria for reimbursement. COSM 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 school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the School District of Choice: Transfers and Appeals Program for the period of July 1, 2001, through June 30, 2002.

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

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

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

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 *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 Finding and Recommendation section of this report.

For the audit period, the Palmdale School District claimed and was paid \$270,513 for costs of the School District of Choice: Transfers and Appeals Program. Our audit disclosed that the entire amount is unallowable. The district should return \$270,513 to the State.

Views of Responsible Officials

We issued a draft audit report on May 5, 2006. Lori K. Ordway-Peck, Deputy Superintendent, responded by letter dated June 14, 2006, (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 the Palmdale School District, the Los Angeles 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

**Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2002**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
Salaries and benefits	\$ 256,751	\$ —	\$ (256,751)
Indirect costs	13,762	—	(13,762)
Total costs	<u>\$ 270,513</u>	—	<u>\$ (270,513)</u>
Less amount paid by the State		<u>(270,513)</u>	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (270,513)</u>	

¹ See Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Unallowable salaries,
benefits, and related
indirect costs**

The district claimed unsupported salaries and benefits costs totaling \$256,751. The related indirect costs, based upon the indirect cost rate claimed, were \$13,762.

The district claimed \$232,051 for responding to information requests from parents who were interested in an independent study, home study, or other alternative attendance option within the school district. The district believes that costs incurred for such responses should be reimbursable under this mandate. However, these activities are outside the scope of this mandate.

The district claimed \$24,700 (659 hours) for responding to information requests from parents interested in an interdistrict transfer. Interdistrict transfer requests may be based on (1) the parent’s place of employment or childcare location; (2) interdistrict attendance permits; or (3) pupil attendance alternatives. Only transfer requests based on pupil attendance alternatives are reimbursable under this mandate. The district did not provide any documentation supporting the reimbursable portion of the \$24,700 claimed.

Costs claimed were traceable to time records. However, we noted inconsistencies that lead us to question the reliability of the time records. During the audit, we noted numerous instances in which employees posted more than eight hours a day on time logs. Detail study of the time logs for four employees, representing 58% of the total claimed hours (5,350 hours out of 9,280 hours) and 44% of the total salaries and benefits cost claimed (\$112,534 out of \$256,751), revealed that the district claimed more than eight working hours for 400 of the 542 total working days. We noted one instance in which, for one employee, the district claimed over 30 hours in a day performing mandated and non-mandated activities. We noted seven instances in which the district claimed 24.01 to 30 hours per day performing mandated and non-mandated activities, and 76 instances in which the district claimed 12.01 to 24 hours per day performing mandated and non-mandated activities. The district neither explained the inconsistencies nor provided source documents to substantiate the excessive hours claimed. Thus, the entire \$24,700 claimed is deemed unallowable.

Distribution of daily working hours claimed by the four employees is as follows.

Range	Number of Working Days				Total
	Employee				
	#1	#2	#3	#4	
Charged 30+ hours/day	1	0	0	0	1
Charged 24.01 t 30 hours/day	2	1	0	4	7
Charged 12.01 to 24 hours/day	19	32	3	22	276
Charged 8.01 to 12 hours/day	73	92	61	90	316
Subtotal	95	125	64	116	400
Charged 0 to 8 hours/day	36	26	60	20	142
Total	131	151	124	136	542

Parameters and Guidelines states that school districts shall be reimbursed for the costs incurred to make information specifically related to alternative pupil attendance choices available to any interested person upon request.

Parameters and Guidelines identifies this program as School District of Choice: Transfers and Appeals. The term “School District of Choice” is taken from Article 1.5 of the *Education Code*, which is defined in the statute as referring only to interdistrict transfers by choice. Similarly, the term “alternative pupil attendance choices,” should also be consistent with the provisions of Article 1.5.

Parameters and Guidelines states that all costs claimed must be traceable to source documents and/or worksheets that show evidence of and the validity of such claimed costs.

Recommendation

We recommend that the district develop and implement an adequate accounting and reporting system to ensure that all claimed costs are properly supported and reimbursable under this mandated program. Furthermore, we recommend that the district explain the inconsistencies in the time logs.

District’s Response

The district disagrees with the SCO position that only the cost to respond to interdistrict information requests for alternative pupil-attendance choices is reimbursable and that the cost to respond to information requests within the school district is not reimbursable. The full text of the district’s response is attached to this report.

The district argues that the COSM’s 1995 *Statement of Decision* stated that *Education Code* Section 48209.13 “is worded broadly, covering many types of information already required under other statutory provisions. For example, a request for a copy of the annual notification to parents falls within the broad categories set forth in section 48209.13 but such a request includes the same information described under section 48980. The commission found the only difference is that section 48209.13 stipulates the information be provided upon request. . . .” Thus, the district believes that “Section 48209.13 requires school districts to respond to parent requests for information regarding all alternative pupil attendance options.”

The district also states that *Parameters and Guidelines*, under Section A, Scope of the Mandate, states, “All school districts shall be reimbursed for the costs incurred to make information specifically related to alternative pupil attendance choices available to any interested person upon request.”

The district believes that the SCO’s narrow definition of the statute only allowing interdistrict transfer requests is inconsistent with the applicable *Parameters and Guidelines*. *Education Code* Section 48209.13 states, “Each school district shall make information regarding its schools, programs, policies, and procedures available to any interested person

upon request.” The district believes that *Parameters and Guidelines* neither explicitly nor implicitly limits the scope of the mandate to only requests for information for interdistrict transfers.

The district believes that the SCO inappropriately argues that the identification of this mandate as “‘School District of Choice: Transfers and Appeals’ somehow indicates a legislative intent to narrow the meaning of ‘alternative pupil attendance choices’ to only interdistrict transfers.” The district states that the SCO’s argument is at odds with *Education Code* Section 48209.2, which “‘encouraged school districts to ‘hold information hearings . . . on the current educational program the district is offering so that parents may make informed decisions regarding their children’s education.’” The district argues that this applies to various alternative attendance options and programs available to them.

SCO’s Comments

The finding and recommendation remain unchanged.

We agree that Section 48209.13 contains no express reference to any type of pupil transfer, either between schools or districts. The section, however, must be considered in the context of the entire Article 1.5. As it is clear that the thrust of the Article is to provide pupils with the alternative to transfer to a “school district of choice” (i.e., an interdistrict transfer), a reasonable conclusion is that the requested information contemplated by the Legislature would relate to consideration of an interdistrict transfer as authorized in Article 1.5. No indication exists that the Legislature, intended Section 48209.13 to extend beyond clearly directing the other sections in Article 1.5 to interdistrict transfers.

The COSM also appeared to have defined the section as applicable only to information requests germane to interdistrict transfers. *Parameters and Guidelines* initially adopted by COSM on August 24, 1995, pertains to Article 1.5 and is entitled “School District of Choice.” The amended *Parameters and Guidelines* adopted July 25, 1996, is entitled “School District of Choice: Transfers and Appeals” and was obviously taken from Article 1.5, which is defined in the statute as referring only to interdistrict transfers. Similarly, the COSM’s employment of the phrase “alternative pupil attendance choices” is also based on the provisions of Article 1.5 and must be understood as having the same restricted meaning.

In the initial *Parameters and Guidelines*, the COSM noted that information requested under Section 48209.13 may include the same information provided in the annual notification to parents under Section 48980. With respect to such information, *Parameters and Guidelines* described the mandate as “The Commission found the only difference is that section 48290.13 stipulated the information be provided upon request, which implies maintaining a supply of the annual parental notification on hand.”

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



June 14, 2006

Jim L. Spano, CPA
Chief, Compliance Audits Bureau
Division of Audits
State Controllers Office
P.O. Box 942850
Sacramento, CA 94250-5874

RE: School District of Choice: Transfers and Appeals Program
July 1, 2001 through June 30, 2002

This letter responds to the draft audit report issued by the State Controllers Office (SCO) with regard to costs claimed by Palmdale Elementary School District (District) for the legislatively mandated School District of Choice: Transfers and Appeals Program (SDC) (Chapter 160, Statutes of 1993; Chapter 1262, Statutes of 1994) for the period of July 1, 2001 through June 30, 2002. The District extends its appreciation for the professional courtesy of SCO staff shown during this audit. The District also appreciates this opportunity to respectfully disagree with the major assumptions behind both the findings and disallowances made by the SCO. It is our hope that the SCO will revisit its assumptions contained in the draft report and recalculate the allowable costs claimed by the District.

Please note that this letter does not represent a complete list of the District's disagreements with the draft audit report, and that the District reserves the right to raise other issues (if necessary) in subsequent proceedings related to the SCO's audit of these claims.

Disallowed costs based on allegation that specific District activities were outside the scope of the mandate.

It is our understanding, from the exit conference, Finding I and subsequent clarifications, that the SCO found 90% of total costs claimed for this program to be "outside the scope of this mandate" (SCO draft audit report, pg 5). The disallowed activity particularly concerns the requirement to "make information specifically related to alternative pupil attendance choices available to any interested person upon request (Parameters and Guidelines adopted July 25, 1996)." The SCO appears to have determined that the requirement to provide information related to alternative pupil attendance choices is limited to "only interdistrict transfers by choice" (SCO draft audit report, pg 6). Further clarification provided by Jim Spano (Chief, Compliance Audits Bureau, State Controllers Office) states the cost to respond to "information request (sic) within the school

district is not reimbursable...only the cost to respond to interdistrict information request (sic) is reimbursable" (Spano email to Don Crane, Palmdale ESD, June 6). We strongly disagree with this conclusion and believe a comprehensive review of this program will show the SCO's narrow interpretation to be inconsistent with the applicable statutes and Parameters and Guidelines.

Education Code section 48209 *et seq.* (added by Chapter 160, Statutes of 1993, AB 19) established the SDC program and the various mandates found to be reimbursable by the Commission on State Mandates (CSM). Section 48209.13 reads "each school district shall make information regarding its schools, programs, policies, and procedures available to any interested person upon request." In its 1995 Statement of Decision "the Commission observed that this section is worded broadly, covering many types of information already required under other statutory provisions. For example, a request for a copy of the annual notification to parents falls within the broad categories set forth in section 48209.13 but such a request includes the same information described under section 48980. The commission found the only difference is that section 48209.13 stipulates the information be provided upon request..." (CSM Statement of Decision, CSM-4451, Adopted February 23, 1995). The Commission's acknowledgment of the overlap of Sections 48209.13 and 48980 clearly indicates that the mandate of 48209.13 must be broadly construed to include the various attendance options expressly included in 48980. Section 48980(j) states that the parent notification "shall advise the parent or guardian of all existing statutory attendance options and local attendance options available in the school district." Thus, Section 48209.13 requires school districts to respond to parent requests for information regarding all alternative pupil attendance options. The Commission's Parameters and Guidelines for the SDC program are entirely consistent with this reading of the scope of the Section 48209.13 mandate. The Parameters and Guidelines applicable to the audit period at issue here were amended in 1996, and address "reimbursable costs" as follows:

"A) Scope of the Mandate

- 1) All school districts shall be reimbursed for the costs incurred to make information specifically related to alternative pupil attendance choices available to any interested person upon request (School District of Choice: Transfers and Appeals, Parameters and Guidelines, Adopted July 25, 1996)."

These Parameters and Guidelines neither explicitly nor implicitly limit the scope of the mandate to only requests for information for interdistrict transfers. The District was required to obey the plain meaning of the statute and was entitled to recover costs pursuant to the plain meaning of the Parameters and Guidelines. Now, in May 2006, the SCO cannot create a new and more narrow construction of the statute, inconsistent with the applicable Parameters and Guidelines, and apply this new interpretation to an audit of SDC claims filed July 2001 through June 2002.

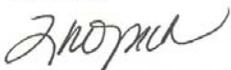
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As noted above in reference to Section 48980(j), alternative attendance options include "all existing statutory attendance options and local attendance options available in the school district." These attendance options include both intradistrict placements and interdistrict transfers. Education Code section 35160 established the process of intradistrict transfers otherwise known as "open enrollment." Education Code sections 46600-46607, 48204(b) and 48300-48315 established the process under which interdistrict transfers could be granted. Programmatic attendance options includes, but is not limited to; community day schools; continuation education; high-risk youth & public safety; home and hospital instruction; independent study; juvenile court schools; magnet schools; opportunity education programs; and dropout prevention programs. The District responded to parent requests regarding some or all of these attendance options and complied with the Parameters and Guidelines in seeking reimbursement of costs. The SCO should not and cannot disallow the District's claims based on the fact that these alternative attendance options include options "within the school district."

Finally, the SCO finding appears to argue that identification of this mandate as "School District of Choice: Transfers and Appeals" somehow indicates a legislative intent to narrow the meaning of "alternative pupil attendance choices" to only interdistrict transfers. As explained above, this SCO interpretation is entirely at odds with the Parameters and Guidelines properly followed by the District. The SCO interpretation is also clearly at odds with the text and intent of the governing statutes. For instance Education Code Section 48209.2 encouraged school districts to "hold informational hearings...on the current educational program the district is offering so that parents may provide input to the district on methods to improve the current program and so parents may make informed decisions regarding their children's education." It is clear the Legislature was encouraging districts to hold informational "hearings" with parents to advise them of all the various alternative attendance options and programs available to them. This would give parents all the information they need to make an informed decision regarding the placement of their child.

In conclusion, the District respectfully disagrees with the SCO's interpretations of law that narrow the scope of the SDC mandate to interdistrict transfers only. The District requests a review of the audit findings and disallowances and a recalculation of allowable costs claimed by the District.

Sincerely,



Lori K. Ordway-Peck
Deputy Superintendent

LKOP/db
cc: Don Crane
Joe Rombold

**State Controller's Office
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