

FULLERTON SCHOOL DISTRICT

Revised Audit Report

STANDARDIZED TESTING AND REPORTING PROGRAM

Government Code section 17561

July 1, 1997, through June 30, 2004



JOHN CHIANG
California State Controller

February 2009



JOHN CHIANG
California State Controller

February 27, 2009

The Honorable Lynn Thornley
President, Board of Trustees
Fullerton School District
1401 West Valencia Drive
Fullerton, CA 92833

Dear Ms. Thornley:

The State Controller's Office audited the costs claimed by Fullerton School District for the legislatively mandated Standardized Testing and Reporting Program (Government Code section 17561) for the period of July 1, 1997, through June 30, 2004. This final report supersedes the original final report issued January 23, 2009.

The district claimed \$1,812,513 for the mandated program. Our audit disclosed that \$132,502 is allowable and \$1,680,011 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs, and understated offsetting reimbursements. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$132,502, contingent upon available appropriations.

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/vb

cc: Rachel Grantham, Financial Analyst
Fullerton School District
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Fullerton School District
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Contents

Revised Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	2
Restricted Use	3
Schedule 1—Summary of Program Costs.....	4
Revised Findings and Recommendations.....	7

Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Fullerton School District for the legislatively mandated Standardized Testing and Reporting Program (Government Code section 17561) for the period of July 1, 1997, through June 30, 2004.

The district claimed \$1,812,513 for the mandated program. Our audit disclosed that \$132,502 is allowable and \$1,680,011 is unallowable. The costs are unallowable because the district claimed ineligible and unsupported costs, and understated offsetting reimbursements. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$132,502, contingent upon available appropriations.

Background

Chapter 828, Statutes of 1997, amended Education Code sections 60607, 60609, 60615, and 60630 and added Education Code sections 60640-60641 and 60643. Chapter 8282, Statutes of 1997, and the implementing regulations in California Code of Regulations, Title 5, sections 850 through 904, established the Standardized Testing and Reporting (STAR) Program related to achievement tests that school districts must administer to pupils in the State.

The STAR program requires school districts, between March 15 and May 15 each year, to test all students in grades 2 through 11 with a nationally-normed achievement test as 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 less than 12 months prior to the date that the English language 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. The 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.

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, the Fullerton School District claimed \$1,812,513 for costs of the Standardized Testing and Reporting Program. Our audit disclosed that \$132,502 is allowable and \$1,680,011 is unallowable.

The State made no payment to the district. Our audit disclosed that \$132,502 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$132,502, contingent upon available appropriations.

**Views of
Responsible
Official**

We issued the original final audit report on January 23, 2009. Subsequent to the issuance of the original final report, Rachel Grantham, Financial Analyst, responded by e-mail dated February 3, 2009, agreeing with the audit results.

Restricted Use

This report is solely for the information and use of the Fullerton 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

February 27, 2009

**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	\$ 198,235	\$ —	\$ (198,235)	Finding 1
Materials and supplies	—	2,660	2,660	Finding 2
Total direct costs	198,235	2,660	(195,575)	
Indirect costs	6,621	111	(6,510)	Findings 1,2
Total direct and indirect costs	204,856	2,771	(202,085)	
Less offsetting revenues/reimbursements	—	(43,208)	(43,208)	Finding 3
Adjustment to eliminate negative balance	—	40,437	40,437	
Total program costs	<u>\$ 204,856</u>	—	<u>\$ (204,856)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 1998, through June 30, 1999</u>				
Direct costs:				
Salaries and benefits	\$ 203,082	\$ —	\$ (203,082)	Finding 1
Materials and supplies	—	2,807	2,807	Finding 2
Total direct costs	203,082	2,807	(200,275)	
Indirect costs	10,377	143	(10,234)	Findings 1,2
Total direct and indirect costs	213,459	2,950	(210,509)	
Less offsetting revenues/reimbursements	—	(51,367)	(51,367)	Finding 3
Adjustment to eliminate negative balance	—	48,417	48,417	
Total program costs	<u>\$ 213,459</u>	—	<u>\$ (213,459)</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	\$ 207,996	\$ —	\$ (207,996)	Finding 1
Materials and supplies	—	2,847	2,847	Finding 2
Total direct costs	207,996	2,847	(205,149)	
Indirect costs	6,947	132	(6,815)	Findings 1,2
Total direct and indirect costs	214,943	2,979	(211,964)	
Less offsetting revenues/reimbursements	—	(13,645)	(13,645)	Finding 3
Adjustment to eliminate negative balance	—	10,666	10,666	
Total program costs	<u>\$ 214,943</u>	—	<u>\$ (214,943)</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	\$ 212,964	\$ —	\$ (212,964)	Finding 1
Materials and supplies	—	2,876	2,876	Finding 2
Total direct costs	212,964	2,876	(210,088)	
Indirect costs	7,113	96	(7,017)	Findings 1,2
Total direct and indirect costs	220,077	2,972	(217,105)	
Less offsetting revenues/reimbursements	—	(16,102)	(16,102)	Finding 3
Adjustment to eliminate negative balance	—	13,130	13,130	
Total program costs	<u>\$ 220,077</u>	—	<u>\$ (220,077)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ —</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries and benefits	\$ 294,110	\$ 33,837	\$ (260,273)	Finding 1
Materials and supplies	43,519	32,417	(11,102)	Finding 2
Total direct costs	337,629	66,254	(271,375)	
Indirect costs	12,053	2,365	(9,688)	Findings 1,2
Total direct and indirect costs	349,682	68,619	(281,063)	
Less offsetting revenues/reimbursements	—	(17,381)	(17,381)	Finding 3
Total program costs	<u>\$ 349,682</u>	51,238	<u>\$ (298,444)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 51,238</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 492,300	\$ 42,209	\$ (450,091)	Finding 1
Materials and supplies	57,276	40,755	(16,521)	Finding 2
Total direct costs	549,576	82,964	(466,612)	
Indirect costs	23,797	3,592	(20,205)	Findings 1,2
Total direct and indirect costs	573,373	86,556	(486,817)	
Less offsetting revenues/reimbursements	—	(17,390)	(17,390)	Finding 3
Total program costs	<u>\$ 573,373</u>	69,166	<u>\$ (504,207)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 69,166</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 59,910	\$ 19,338	\$ (40,572)	Finding 1
Materials and supplies	—	8,964	8,964	Finding 2
Total direct costs	59,910	28,302	(31,608)	
Indirect costs	2,804	1,325	(1,479)	Findings 1,2
Total direct and indirect costs	62,714	29,627	(33,087)	
Less offsetting revenues/reimbursements	(26,591)	(17,529)	9,062	Finding 3
Total program costs	<u>\$ 36,123</u>	12,098	<u>\$ (24,025)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 12,098</u>		
<u>Summary: July 1, 1997, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 1,668,597	\$ 95,384	\$(1,573,213)	
Materials and supplies	100,795	93,326	(7,469)	
Total direct costs	1,769,392	188,710	(1,580,682)	
Indirect costs	69,712	7,764	(61,948)	
Total direct and indirect costs	1,839,104	196,474	(1,642,630)	
Less offsetting revenues/reimbursements	(26,591)	(176,622)	(150,031)	
Adjustment to eliminate negative balance	—	112,650	112,650	
Total program costs	<u>\$ 1,812,513</u>	132,502	<u>\$(1,680,011)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 132,502</u>		

¹ See the Findings and Recommendations section.

Revised Findings and Recommendations

FINDING 1— Unallowable salaries and benefits, and related indirect costs

The district claimed \$1,668,597 in salaries and benefits, and \$65,679 in indirect costs for the audit period. For fiscal year (FY) 1997-98 through FY 2003-04, the district's claimed costs were not adequately supported. The district submitted certification of time for each school site to support its reimbursable claims for mandated Standardized Testing and Reporting (STAR) activities. The district did not provide time records or payroll records to support the time recorded on the certifications.

Our audit disclosed that the district accounted for the costs of the STAR tests collectively, without separately identifying the costs by test. Consequently, district staff members were not able to calculate the reimbursable portion based on its time records.

The district claimed salaries and benefits for the costs of 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 determined the percentages of the tests that related to the mandate (SAT-9, CAT/6, and SABE/2) based on the STAR Web site.

For FY 1997-98 through FY 2001-02, the district provided its consultant's Mandated Costs Time Sheet to support hours claimed by district staff. The time sheets estimated annual hours spent by district staff performing reimbursable activities, which were completed, signed, and dated in June 2002. The district did not provide any source documents to support the actual employee time spent on mandated activities. However, for FY 2001-02, the district did provide other support for some claimed costs that were recorded directly to a STAR mandate cost center, account 506.

For FY 2002-03, the district did not provide any time records to support the actual employee time spent on mandated activities. However, the district did provide other support for some claimed costs that were recorded directly to a STAR mandate cost center, account 506.

For FY 2003-04, the district provided Mandated Costs Time Sheet printouts from the consultant's computer system used to record mandated program hours performed. The district did not provide any time records to support the actual employee time spent on mandated activities. However, the district did provide other support for some claimed costs that were recorded directly to a STAR mandate cost center, account 506.

We worked with the district to develop alternative methodologies to determine allowable salaries and benefits, and related indirect costs for FY 1997-98 through FY 2003-04. However, on September 9, 2008, the district decided not to provide any payroll records or identify district staff who performed mandated activities to support claimed costs. The

district believed that it will not be reimbursed for any allowable claimed costs, so they were reluctant to spend too much of its current time in supporting past claims.

We determined that the non-reimbursable percentage related to the administration of tests consisted of 32.7% for FY 1997-98, 32.7% for FY 1998-99, 32.7% of FY 1999-2000, 35.9% for FY 2000-01, 33.1% for FY 2001-02, 34.6% for FY 2002-03, and 36.3% for FY 2003-04.

By applying the non-mandated percentage to supported costs, we determined that \$50,092 was ineligible and \$1,523,121 was unsupported.

We determined that the district overstated salaries and benefits, and related indirect costs by \$1,634,952.

The following table shows the calculation of the unsupported and ineligible costs related to administering the STAR tests:

	Fiscal Year							Total
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	
Claimed salaries and benefits	\$ 198,235	\$ 203,082	\$ 207,996	\$ 212,964	\$ 294,110	\$ 492,300	\$ 59,910	\$ 1,668,597
Unsupported salaries and benefits	(198,235)	(203,082)	(207,996)	(212,964)	(243,531)	(427,761)	(29,552)	(1,523,121)
Supported salaries and benefits	—	—	—	—	50,579	64,539	30,358	\$ 145,476
Non-mandate percentage	× (32.7)%	× (32.7)%	× (32.7)%	× (35.9)%	× (33.1)%	× (34.6)%	× (36.3)%	
Ineligible costs	—	—	—	—	(16,742)	(22,330)	(11,020)	\$ (50,092)
Unsupported costs	(198,235)	(203,082)	(207,996)	(212,964)	(243,531)	(427,761)	(29,552)	(1,523,121)
Salaries and benefits adjustment	(198,235)	(203,082)	(207,996)	(212,964)	(260,273)	(450,091)	(40,572)	(1,573,213)
Indirect costs adjustment	(6,621)	(10,377)	(6,947)	(7,113)	(9,292)	(19,490)	(1,899)	(61,739)
Audit adjustment	\$ (204,856)	\$ (213,459)	\$ (214,943)	\$ (220,077)	\$ (269,565)	\$ (469,581)	\$ (42,471)	\$ (1,634,952)

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 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. . . .

Recommendation

We recommend that the district ensure that all claimed costs are applicable to the mandated program and reimbursable under the program's parameters and guidelines, and that the costs are properly supported with source documents.

District's Response

The district agreed with the audit finding.

**FINDING 2—
Unallowable materials
and supplies, and
related indirect costs**

The district claimed \$100,795 in materials and supplies, and \$4,033 in indirect costs for the audit period. The district claimed costs that were ineligible. In addition, the district did not claim all reimbursable costs related to the mandate. Based on the calculation described in Finding 1, we determined that \$7,469 of the \$100,795 is not reimbursable. The related indirect costs total \$209.

As noted in Finding 1, the district accounted for the costs of the STAR tests collectively, without separately identifying the costs by test, which includes the cost of two tests that are not reimbursable under the mandate. Consequently, district staff members were not able to calculate the reimbursable portion based on its records.

By applying the non-mandated percentage identified in Finding 1 to support costs, we determined that \$48,359 was ineligible. In addition, we determined that the district underclaimed \$40,890 in reimbursable costs.

For FY 1997-98 through FY 2000-01, the district:

- Did not claim \$3,952 (FY 1997-98), \$4,170 (FY 1998-99), \$4,230 (FY 1999-2000), and \$4,487 (FY 2000-01) in reporting and recordkeeping costs related to mailing student test results.

For FY 2001-02, the district:

- Did not claim \$4,938 in reporting and recordkeeping costs related to mailing student test results.
- Overstated by \$16,040 pretest and post-test coordination and reporting costs and recordkeeping costs because costs for the entire STAR program were claimed, rather than the mandate portion only.

For FY 2002-03, the district:

- Did not claim \$5,041 in reporting and recordkeeping costs related to mailing student test results.
- Overstated by \$21,562 pretest and post-test coordination and reporting costs and recordkeeping costs because costs for the entire STAR program were claimed, rather than the mandate portion only.

For FY 2003-04, the district:

- Did not claim \$8,834 in pretest and post-test coordination costs related to office supplies, copies, and postage.
- Did not claim \$5,238 in reporting and recordkeeping costs related to mailing student test results.

The following table shows the calculation of the unsupported and ineligible costs related to administering the STAR tests:

	Fiscal Years							Total
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	
Claimed materials and supplies	\$ —	\$ —	\$ —	\$ —	\$ 43,519	\$ 57,276	\$ —	\$ 100,795
Under claimed cost	3,952	4,170	4,230	4,487	4,938	5,041	14,072	40,890
Subtotal	3,952	4,170	4,230	4,487	48,457	62,317	14,072	\$ 141,685
Non-mandate percentage	× (32.7)%	× (32.7)%	× (32.7)%	× (35.9)%	× (33.1)%	× (34.6)%	× (36.3)%	
Ineligible costs	(1,292)	(1,363)	(1,383)	(1,611)	(16,040)	(21,562)	(5,108)	\$ (48,359)
Underclaimed cost	3,952	4,170	4,230	4,487	4,938	5,041	14,072	40,890
Materials and supplies adjustment	2,660	2,807	2,847	2,876	(11,102)	(16,521)	8,964	(7,469)
Indirect costs adjustment	111	143	132	96	(396)	(715)	420	(209)
Audit adjustment	\$ 2,771	\$ 2,950	\$ 2,979	\$ 2,972	\$ (11,498)	\$ (17,236)	\$ 9,384	\$ (7,678)

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

The cost of materials and supplies used for reports (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.(A)), 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 VI.A) state:

For auditing purposes, all incurred costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities.

Recommendation

We recommend that the district ensure that all costs are supported by appropriate documentation and are reimbursable under the mandate.

District's Response

The district agreed with the audit finding.

**FINDING 3—
Understated offsetting
reimbursements**

The district understated offsetting revenues by \$150,031 for the audit period.

The district only claimed \$26,591 of the \$266,103 STAR program reimbursements for the audit period. Consequently, it understated offsetting revenues by \$239,422 (\$64,203 for FY 1997-98, \$76,326 for FY 1998-99, \$20,275 for FY 1999-2000, \$25,120 for FY 2000-01, \$25,981 for FY 2001-02, \$26,591 for FY 2002-03, and \$927 for FY 2003-04). STAR program reimbursements related to two tests not reimbursable under the mandate. Based on the calculation described in Finding 1, we determined that the district underclaimed STAR reimbursement by \$150,031, which is not related to the mandate. The STAR reimbursable portion related to the mandate is \$176,622 for the audit period.

The following table shows the overstated STAR program reimbursements:

	Fiscal Years							Total
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	
Claimed reimbursement	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 26,591	\$ 26,591
Underclaimed reimbursement	64,203	76,326	20,275	25,120	25,981	26,591	927	239,422
Subtotal	64,203	76,326	20,275	25,120	25,981	26,591	27,518	\$ 266,013
Non-mandate percentage	× 67.3%	× 67.3%	× 67.3%	× 64.1%	× 66.9%	× 65.4%	× 63.7%	
Less reimbursable portion	\$ 43,208	\$ 51,367	\$ 13,645	\$ 16,102	\$ 17,381	\$ 17,390	\$ 17,529	\$ 176,622
Audit adjustment (claimed reimbursement less reimbursable portion)	\$ (43,208)	\$ (51,367)	\$ (13,645)	\$ (16,102)	\$ (17,381)	\$ (17,390)	\$ 9,062	\$ (150,031)

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 ensure that all applicable revenues are offset on its claims against its mandated program costs.

District's Response

The district agreed with the audit finding.

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

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