

# **GLENDALE UNIFIED SCHOOL DISTRICT**

Audit Report

## **STANDARDIZED TESTING AND REPORTING PROGRAM**

Chapter 828, Statutes of 1997

*July 1, 2002, through June 30, 2004*



**JOHN CHIANG**  
California State Controller

January 2009



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

January 21, 2009

Joylene Wagner, President  
Board of Education  
Glendale Unified School District  
223 N. Jackson Street  
Glendale, CA 91206

Dear Ms. Wagner:

The State Controller's Office audited the costs claimed by the Glendale Unified School District for the legislatively mandated Standardized Testing and Reporting Program (Chapter 828, Statutes of 1997) for the period of July 1, 2002, through June 30, 2004.

The district claimed \$415,670 (\$415,938 less a \$268 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$135,407 is allowable and \$280,263 is unallowable. The costs are unallowable because the district claimed ineligible costs and overstated the reimbursements. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$135,407, 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 CSM's Web site, at [www.csm.ca.gov](http://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](mailto:csminfo@csm.ca.gov).

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: Michael F. Escalante, Ed.D.  
Superintendent  
Glendale Unified School District  
Eva Rae Lueck  
Chief Business and Financial Officer  
Glendale Unified School District  
Lila Bronson, Ed.D.  
Director of Assessment and Evaluation  
Glendale Unified School District  
Darline P. Robles, Ph.D., County Superintendent of Schools  
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# Contents

## **Audit Report**

<b>Summary .....</b>	<b>1</b>
<b>Background .....</b>	<b>1</b>
<b>Objective, Scope, and Methodology .....</b>	<b>2</b>
<b>Conclusion .....</b>	<b>2</b>
<b>Views of Responsible Officials .....</b>	<b>2</b>
<b>Restricted Use .....</b>	<b>3</b>
<b>Schedule 1—Summary of Program Costs.....</b>	<b>4</b>
<b>Findings and Recommendations .....</b>	<b>5</b>
<b>Attachment—District’s Response to Draft Audit Report</b>	

# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by the Glendale Unified School District for the legislatively mandated Standardized Testing and Reporting Program (Chapter 828, Statutes of 1997) for the period of July 1, 2002, through June 30, 2004.

The district claimed \$415,670 (\$415,938 less a \$268 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$135,407 is allowable and \$280,263 is unallowable. The costs are unallowable because the district claimed ineligible costs and overstated the reimbursements. The State made no payment to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$135,407, 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 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) 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 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 is 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. 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 STAR Program for the period of July 1, 2002, 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 declined our request.

**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 Glendale Unified School District claimed \$415,670 (\$415,938 less a \$268 penalty for filing a late claim) for costs of the STAR Program. Our audit disclosed that \$135,407 is allowable and \$280,263 is unallowable.

The State made no payment to the district. Our audit disclosed that \$135,407 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$135,407, contingent upon available appropriations.

**Views of  
Responsible  
Officials**

We issued a draft audit report on April 4, 2008. Joylene Wagner, President, Board of Education and Michael F. Escalante, Ed.D., Superintendent, responded by letter dated April 28, 2008 (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 Glendale Unified 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

January 21, 2009

**Schedule 1—  
Summary of Program Costs  
July 1, 2002, through June 30, 2004**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2002, through June 30, 2003</u>				
Salaries and benefits	\$ 258,992	\$ 141,876	\$ (117,116)	Finding 1
Indirect costs	15,773	8,641	(7,132)	Finding 1
Total direct and indirect costs	274,765	150,517	(124,248)	
Less offsetting savings/reimbursements	(58,687)	(69,808)	(11,121)	Finding 2
Less late filing penalty	(268)	(268)	—	
Total program costs	<u>\$ 215,810</u>	80,441	<u>\$ (135,369)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 80,441</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Salaries and benefits	\$ 248,147	\$ 133,429	\$ (114,718)	Finding 1
Materials and supplies	424	424	—	
Travel and training	40	40	—	
Total direct costs	248,611	133,893	(114,718)	
Indirect costs	10,224	5,497	(4,727)	Finding 1
Total direct and indirect costs	258,835	139,390	(119,445)	
Less offsetting savings/reimbursements	(58,975)	(84,424)	(25,449)	Finding 2
Total program costs	<u>\$ 199,860</u>	54,966	<u>\$ (144,894)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 54,966</u>		
<u>Summary: July 1, 2002, through June 30, 2004</u>				
Salaries and benefits	\$ 507,139	\$ 275,305	\$ (231,834)	
Materials and supplies	424	424	—	
Travel and training	40	40	—	
Total direct costs	507,603	275,769	(231,834)	
Indirect costs	25,997	14,138	(11,859)	
Total direct and indirect costs	533,600	289,907	(243,693)	
Less offsetting savings/reimbursements	(117,662)	(154,232)	(36,570)	
Less late filing penalty	(268)	(268)	—	
Total program costs	<u>\$ 415,670</u>	135,407	<u>\$ (280,263)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 135,407</u>		

<sup>1</sup> See the Findings and Recommendations section.

# Findings and Recommendations

**FINDING 1—  
Unallowable salaries  
and benefits**

The district claimed \$507,139 in salaries and benefits for the administration of the Standardized Testing and Reporting (STAR) exams, including two tests that are not reimbursable under the mandate. Based on the calculation described below, we determined that \$231,834 of the \$507,139 is not reimbursable. The related indirect costs total \$11,859.

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); 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.

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 was not able to calculate the reimbursable portion based on its time records.

As the district did not calculate the reimbursable portion, we calculated the non-reimbursable percentages by dividing the cumulative number of students tested for the CST and CAPA by the cumulative number of students tested by all four tests. We obtained the information from the California Department of Education’s Web site (<http://star.cde.ca.gov>) that identifies the number of students tested for each of the four tests by fiscal year and school site. The results disclosed that 45.22% of FY 2002-03 costs and 46.23% of FY 2003-04 claimed costs related to the administration of the tests were for activities not reimbursable under the mandate. For FY 2002-03, we applied 45.22% to \$258,992 of salaries and benefits that computed to \$117,116, and for FY 2003-04, we applied 46.23% to \$248,147 of salaries and benefits that computed to \$114,718. The sum for both years is \$ 231,834.

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

	Fiscal Year		Total
	2002-03	2003-04	
Salaries and benefits:			
Claimed salaries and benefits	\$ 258,992	\$ 248,147	\$ 507,139
Non-mandate percentage	× (45.22)%	× (46.23)%	
Salaries and benefits adjustment	(117,116)	(114,718)	\$ (231,834)
Indirect costs	(7,132)	(4,727)	(11,859)
Audit adjustment	\$ (124,248)	\$ (119,445)	\$ (243,693)

The program parameters and guidelines state that “all costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities.”

The parameters and guidelines identify SAT-9 and SABE/2 tests as reimbursable tests. The CAT/6 Survey replaced the SAT-9 tests effective FY 2002-03.

### Recommendation

We recommend that the district either separately identify costs related to administering tests reimbursable under the mandate or use the information from the California Department of Education's Web site to determine the applicable percentage to apply against the costs to administer the STAR tests.

### District's Response

Your office decided that the test packets that we were given to use included tests that were not named in the mandated test claim so they therefore were not mandated. Using this rationale, your office has stated the time for each test should be recorded separately and only a portion of the time was to support the mandate. This was not the information we received in 2002-03 or 2003-04 and it is not possible or appropriate to retroactively implement this allocation process. They were required tests that were in the packet we received from the State. They were mandated (required).

Due to the complexity of reporting mandated cost claims, we utilize an outside vendor to assist us. This is their response to Finding 1.

- The District does not concur with the SCO conclusion that the CST and CAPA components of STAR were included in the salaries and benefits for the administration of the STAR exams. The data collection logs for FY 2002-2003 include only the Education (EC) references stated in the parameters and guidelines; and the data collection logs for FY 2003-2004 specifically state in the instructions that "Reimbursement is provided for activities with administering the SAT-9 and the SABE/2", with the correct EC references, per the parameters and guidelines, as well. It is our belief that those staff members who recorded their times were doing so for the reimbursable tests only. The District did claim \$507,139 in salaries and benefits for the administration of the appropriate STAR exams that were reimbursable and allowable. Therefore, no reduction or adjustment should be made for claiming incorrect or non-reimbursable STAR tests.
- The audit disclosed that the district accounted for costs of the STAR tests collectively without separately identifying the costs by test. Thus district staff was not able to calculate the reimbursable portion of its time records. We are not sure how reasonable it would be to expect that separate time records be kept by each staff person, for each test administered under STAR since most of the STAR testing activities occur during the same general time period on the calendar and that many activities ran concurrently with each other. There is no requirement in the STAR claiming instructions to track each of the STAR testing components (both the reimbursable and non-reimbursable tests) separately. We therefore disagree with this recommendation.
- We dispute the SCO calculation of the non-reimbursable percentages. Since the time logs by staff appropriately reflected the time tracking of the reimbursable activities, the attempt to pro-rate

ineligible costs was inappropriate. The District was told by the SCO auditors after their site visits, that the times were claimed by the various staff at the various school sites were reasonable. We therefore do not feel it is acceptable for the SCO to reduce the claimed about by the percentages provided by the California State Department of Education (SDE) for the CST and CAPA portion of STAR.

The district's response also included the following statements:

- Individuals, who completed time logs, four and five years ago, were brought in to be interviewed to explain what they did during the time they had logged. The interviews were approximately one hour in length. We would challenge anyone to remember what they did four years ago on a specific day for a specific number of minutes. We had to pay for substitutes for those teachers interviewed during school hours and extra duty pay for those that came in after the school day.
- Individuals were asked if they had a secondary document to support the time log that they submitted. Teachers do not log their days by the hour, they are not accountants or attorneys that do billings. They do lesson plans. They do not keep detailed daily schedules that can be audited four years after the fact. This caused a great deal of stress and anxiety which was not necessary.
- The District takes exception to most all of the SCO audit findings for staff that lacked adequate documentation. We identified many of the staff that could not be verified by the SCO. Many of those disallowed resulted from name misspellings or handwriting illegibility. Others were disallowed because of the fact they were retirees who did not appear on the HRS reports. . . . We believe that most staff claimed was properly included. The certificated retiree staff claimed was not found on the HRS report since they were not considered current employees, but they should be allowed because the District incurred the cost during the testing period. We are not sure if this updated/corrected report is included in this Draft audit report.

The district also stated that this finding did not relate to excess reporting of time or costs, but rather a retroactive application of a change in policy that occurred after the claims were filed. The district further stated that the change included, "A re-defining of the tests that were to be included in the STAR testing packet."

#### SCO's Comment

The finding and recommendation remain unchanged.

The Commission on State Mandates (CSM), not the SCO, determines reimbursable activities. The SCO did not decide that the test packets given to the district to use included tests that were not reimbursable under the mandate. The CSM adopted the program's parameters and guidelines on January 24, 2002; the parameters and guidelines identified only the SAT-9 and SABE/2 as reimbursable tests. The CSM adopted a reconsideration of prior statement of decision on July 29, 2005, which clarified that costs to administer the CST and CAPA tests are not reimbursable under the STAR Program.

The district's response letter is not clear as to which tests were claimed.

- The district stated that all STAR tests [SAT-9, SABE/2, CST, and CAPA] were mandated and that it is not appropriate to allocate the costs between mandated and non-mandated tests. Thus, the district infers that it claimed costs for all four tests.
- The consultant stated that only SAT-9 and SABE/2 costs were claimed.
- The consultant then states that it is not reasonable to maintain separate time records for each of the four tests administered under STAR, as most of the STAR testing activities occur during the same general time and run concurrently with each other.

The district's response did not accurately describe the SCO recommendation. The district stated, "There is no requirement in the STAR claiming instructions to track each of the STAR testing components (both the reimbursable and non-reimbursable tests) separately. We therefore disagree with this recommendation." However, we recommended that the district either separately identify costs related to administering tests reimbursable under the mandate or use the information from the California Departments of Education's Web site to determine the applicable percentage to apply against the costs to administer the STAR tests.

The district is responsible for supporting claimed costs with source documents that show evidence of the validity and relationship to reimbursable activities. The district claimed costs based on information recorded on the consultant's data collection logs, which were often summaries of annual hours spent rather than source documents. Many of the logs identified time spent during the fiscal year—ranging from ½ hour to 64 hours—without identifying the months and days such hours were incurred. Many logs were undated. Consequently, we expanded audit procedures to validate the recorded hours.

We interviewed 17 school representatives at 14 schools to support the validity of the hours recorded. All of the interviews were scheduled at a time convenient for each of the selected school employees. At each site, we interviewed site coordinators or their staff in order to determine which STAR examinations were claimed and what source documents were available to substantiate the hours recorded on the logs. In instances in which staff members did not have time logs to validate hours charged to the mandate, we provided them the opportunity to present alternative documents such as calendars, diaries, and computer logs to validate the hours claimed. We conducted the interviews in a professional and courteous manner. We were not aware of any stress or anxiety during the interviews. We were not informed that extra costs were incurred by the district as a result of our interviews.

The site coordinators informed us that hours recorded on the logs were for all four STAR program tests, and that the hours were not separately recorded by the four individual tests. Based on our interviews and review of additional documentation, we found that the hours spent working on

the STAR program (all four tests) were supported. We had no findings related to unsupported salaries and benefits. Therefore, the district’s statement that the SCO disallowed costs because of name misspellings or handwriting illegibility is not valid. The draft report did not include adjustments for unsupported costs.

The district did not provide time records that identify the non-reimbursable hours claimed. Consequently, we reduced claimed costs by percentages developed from the California State Department of Education for the CST and CAPA examinations portion of the STAR program.

The district’s response related to an SCO change in policy is also not accurate. As stated above, we did not redefine what tests were to be included in the STAR testing packets. Instead, we clarified that only costs related to the SAT-9 and SABE/2 tests were reimbursable. We did not advise the district that the CST and CAPA tests were to be excluded from the STAR testing packet.

**FINDING 2—  
Overstated offsetting  
reimbursements**

The district understated offsetting reimbursements by the net amount of \$36,570 for the audit period.

The district mistakenly reported the portion of the annual STAR apportionments relating to the CST and CAPA exams. Based on the methodology described in Finding 1, we determined that \$53,802 of the reimbursements did not relate to the mandate.

The following table shows the overstated STAR program reimbursements:

	Fiscal Year		Total
	2002-03	2003-04	
Total reimbursements	\$ 58,687	\$ 58,975	\$ 117,662
Non-mandate portion	×(45.22)%	×(46.23)%	
Audit adjustment	\$ 26,538	\$ 27,264	\$ 53,802

In addition, the district did not offset claimed costs by employees funded with restricted resources totaling \$166,780. Based on the methodology described in Finding 1, we determined that \$90,372 is related to the mandate.

The following table shows the understated reimbursements from restricted resources:

	Fiscal Year		Total
	2002-03	2003-04	
Restricted resources used to fund supported salaries and benefits	\$ (64,799)	\$ (94,156)	\$ (158,955)
Indirect costs	(3,946)	(3,879)	(7,825)
Salaries and benefits adjustment	(68,745)	(98,035)	\$ (166,780)
Reimbursable mandate portion	× 54.78%	× 53.77%	
Audit adjustment	\$ (37,659)	\$ (52,713)	\$ (90,372)

The following table summarizes the understated offsetting reimbursements:

	Fiscal Year		Total
	2002-03	2003-04	
Overstated STAR program reimbursements	\$ 26,538	\$ 27,264	\$ 53,802
Understated reimbursements from restricted resources	<u>(37,659)</u>	<u>(52,713)</u>	<u>(90,372)</u>
Audit adjustment	<u>\$ (11,121)</u>	<u>\$ (25,449)</u>	<u>\$ (36,570)</u>

The parameters and guidelines state that reimbursement for this mandate 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 in the future the district offset claimed costs by employees funded with restricted resources.

We also recommend that the district ensure that only applicable revenues be offset on its claims against its mandated program costs.

District’s Response

Your office changed the interpretation of the parameters and guidelines which state that ***“the reimbursement for this mandate 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.”*** This was previously interpreted to be any monies that were received for the express purpose of the mandate. For example, the funding received for the testing process should be recorded and deducted from the cost to implement the testing.

The ***new*** interpretation is that if an employee is paid out of a state or federal funding, their costs shall be deducted from the claim. Our funding is 98% state and federal funding. This interpretation would effectively eliminate any reimbursement. Your office decided to interpret this language to mean any state and federal ***categorical*** funds. They proceeded to deduct the salaries of employees that were charged to the Special Education Program, Title I Part A, and School Based Coordinated Program.

These programs are very under-funded and supported with our General Fund Revenues. Special Education alone encroached more than \$5 million in 2002-03 and 2003-04. Title I Part A serves disadvantaged as well as low performing students, while the School Based Coordinated Program serves all the students who need assistance in core curriculum. The cost of these programs far exceeds the revenue that is received. To now interpret the guidelines to say if an employee is paid out of these resources, the State will ***not reimburse*** the costs in the mandate program is ***wrong***. If this interpretation existed in 2002-03 and/or 2003-04, accounting adjustments would have been made to move the salaries to the General Fund to meet the requirements.

At a minimum, full funding should be provided and if the State is concerned with the use of those dollars, the District is willing to direct those funds back to the various programs.

This is the response to Finding 2 from our outside experts:

- The SCO stated that the District understated offsetting reimbursement by a net amount of \$36,570 for the audit period. The District believes, based on the SCO findings, that the offsetting reimbursements claimed were actually overstated, not understated, since they included CST and CAPA. If these offsets are reduced as shown by the SCO calculations, then the District should have only offset an amount of \$26,538 (instead of \$58,687 for 2002-2003, and \$27,264 (instead of \$58,975) for 2003-2004, thus increasing the claimable amounts.
- The District's position, as it relates to including staff who are funded by restricted sources, is that staff funded 100% by either federal and/or state categorical funds, should be allowable. The District believes that costs for special/categorically funded and special education staff should be allowable because of the fact that these staff members are performing their duties in addition to their regular job assignments and/or the District supporting the positions because of deficit funding for these programs. We believe that these costs should be claimable and reinstated. The SCO states that the District did not offset claimed costs by employees funded with restricted funded resources totaling \$166,780, and that \$90,372 related to the mandate (using the methodology in Finding 1). We do not believe that any negative offset should be imposed for restricted funded staff.

The district's response also included the following statement:

The standard payroll records were not sufficient and our programmers had to go back into the archives of a computer system that is no longer used to generate reports indicating the funding sources of individuals. This was time and labor intensive. The funding sources of an employee had never been part of previous audits.

The district stated that this finding did not relate to excess reporting of time or costs, but rather a retroactive application of a change in policy that occurred after the claims were filed. The district further stated the finding resulted from the following:

A new interpretation of a guideline that has been in place for many years. The new interpretation excludes salaries of individuals that were charged to other programs. It should be noted that these programs are all supported by General Fund dollars and if this interpretation were known in 2002-03 and 2003-04, the salary accounts would have been re-assigned.

#### SCO's Comment

The finding and recommendation remain unchanged.

The CSM-adopted parameters and guidelines states, "the reimbursement for this mandate 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." Although the district did not receive restricted

categorical funds for the STAR program, the employees claimed under the mandate were funded with these funds. The extent that an employee is funded with restricted resources is not reimbursable under the mandate. Otherwise, the district would be reimbursed twice for the same employee costs—once from the restricted categorical funds and again from the mandated STAR program.

During the audit, we did ask the district to provide documentation supporting the funding sources of individuals claimed under the mandates. The report was used to determine whether any employees claimed under the mandate were also charged to restricted resources. The district claimed that state and federal categorical programs were under-funded and were supported by the General Fund. However, the district did not provide the auditors with any documentation to support this assertion.

The consultant's first bulleted item indicating that the SCO incorrectly states that offsetting reimbursement related to the inclusion of CST and CAPA tests were overstated rather than understated by \$36,570 is not accurate. This portion of the finding did accurately state that offsetting reimbursements were understated by \$36,570.

The consultant's second bulleted item states that mandated employee costs funded with restricted resources should not be deducted from claimed costs. The consultant states that these staff members are performing their duties in addition to their regular job assignments. The consultant also states that the district is supporting the positions because of deficit funding for these programs. As noted above, the district did not provide us documentation supporting this assertion.

The district's response related to an SCO change in policy is not accurate. Costs of employees funded with restricted resources are not reimbursable under the mandated programs. We have had similar audit findings that were accepted by other school districts since 2003.

## **OTHER COMMENTS**

In its response, the district commented on what it perceives to be an inefficient audit approach and process. The district's response also requested all cost data related to the audit under the Freedom of Information Act. Our response to the district's comments is addressed in a separate letter dated June 13, 2008.

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

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GLENDALE UNIFIED SCHOOL DISTRICT

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Gregory S. Krikorian, Member

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Superintendent of Schools

April 28, 2008

The Honorable John Chiang  
California State Controller  
300 Capitol Mall, Suite 518  
Sacramento, CA 95814

Dear Mr. Chiang:

We are very disappointed with the audit process that occurred. The process took an excessive amount of time and resulted in "new" interpretations of the code to reduce the District's claim.

The audit was for 2002-03 and 2003-04 Standardized Testing and Reporting Program (STAR) claims. The audit began on February 12, 2007 and concluded six months later on August 22, 2007. The DRAFT Audit Report was issued April 2008. This was fourteen months from the beginning of the audit process. The combined dollar amount that was being audited for these *two* years (2002-03 and 2003-04) was *\$415,670* on a mandate that was *never funded* and was *discontinued* at the end of 2003-04.

- There were one to two auditors in our offices for several weeks at a time during the audit period. This was a significant cost to the State of California and to the District as our staff was needed during this time to respond to inquiries.
- The standard payroll records were not sufficient and our programmers had to go back into the archives of a computer system that is no longer used to generate reports indicating the funding sources of individuals. This was time and labor intensive. The funding sources of an employee had never been part of previous audits.
- Individuals, who completed time logs, four and five years ago, were brought in to be interviewed to explain what they did during the time they had logged. The interviews were approximately one hour in length. We would challenge anyone to remember what they did four years ago on a specific day for a specific number of minutes. We had to pay for substitutes for those teachers interviewed during school hours and extra duty pay for those that came in after the school day.
- Individuals were also asked if they had a secondary document that would support the time log that they submitted. Teachers do not log their days by the hour, they are not

accountants or attorneys that do billings. They do lesson plans. They do not keep detailed daily schedules that can be audited four years after the fact. This caused a great deal of stress and anxiety which was not necessary.

- Due to our size and funding sources, Glendale Unified School District is often audited. In the past year we have had an STRS audit (over \$100 million in salaries), Coordinated Compliance Audit (over \$20 million in funding), a federal audit of grants (approximately \$18.5 million in funding), and our annual financial audit (over \$250 million). Each of these audits had rigorous standards and guidelines but they took less time than the audit performed by your department for a program that averages about \$200,000 per year.

We are extremely concerned that the State is operating with this level of inefficiency. The auditors should have reviewed the time logs that were submitted and the number of students that were tested to determine if the time was reasonable. If it was not, then further testing would have been appropriate. It should be noted that when reviewing the logs, no individual had an unusually high amount of time nor was the time excessive in total district-wide. There were no deductions for excessive time reporting or abuses.

Due to the excessive amount of time involved in this audit, we are requesting all cost data relating to the audit that was performed by the State. This would be inclusive of the auditor's timesheets, pay rates, travel expenses, staff time in the office, and any other related expenses. This request is being made under the Freedom of Information Act and is for the purpose of determining the cost/benefit of the auditing approach that is being utilized by the State Controller's Office.

Regarding the audit findings; the two audit findings in the report do *not relate to excess reporting of time or costs*. They relate directly to *changes in policy* that occurred after the claims were filed. These changes are being applied retroactively.

- A re-defining of the tests that were to be included in the STAR testing packet.
- A new interpretation of a guideline that has been in place for many years. The new interpretation excludes salaries of individuals that were charged to other programs. It should be noted that these programs are all supported by General Fund dollars and if this interpretation were known in 2002-03 and 2003-04, the salary accounts would have been re-assigned.

**Finding #1:** Your office decided that the test packets that we were given to use included tests that were not named in the mandated test claim so they therefore were not mandated. Using this rationale your office has stated the time for each test should be recorded separately and only a portion of the time was to support the mandate. This was not the information we received in 2002-03 or 2003-04 and it is not possible or appropriate to retroactively implement this allocation process. They were required tests that were in the packet we received from the State. They were mandated (required).

Due to the complexity of reporting mandated cost claims, we utilize an outside vendor to assist us. This is their response to Finding #1:

- The District does not concur with the SCO conclusion that the CST and CAPA components of STAR were included in the salaries and benefits for the administration of the STAR exams. The data collection logs for FY 2002-2003 include only the Education Code (EC) references stated in the parameters and guidelines; and the data collection logs for FY 2003-2004 specifically state in the instructions that "Reimbursement is provided for activities with administering the SAT-9 and the SABE/2", with the correct EC references, per the parameters and guidelines, as well. It is our belief that those staff members who recorded their times were doing so for the reimbursable tests only. The District did claim \$507,139 in salaries and benefits for the administration of the appropriate STAR exams that were reimbursable and allowable. Therefore, no reduction or adjustment should be made for claiming incorrect or non-reimbursable STAR tests.
- The audit disclosed that the district accounted for costs of the STAR tests collectively, without separately identifying the costs by test. Thus district staff was not able to calculate the reimbursable portion of its time records. We are not sure how reasonable it would be to expect that separate time records be kept by each staff person, for each test administered under STAR since most of the STAR testing activities occur during the same general time period on the calendar and that many activities ran concurrently with each other. There is no requirement in the STAR claiming instructions to track each of the STAR testing components (both the reimbursable and non-reimbursable tests) separately. We therefore disagree with this recommendation.
- We dispute the SCO calculation of the non-reimbursable percentages. Since the time logs by staff appropriately reflected the time tracking of the reimbursable activities, the attempt to pro-rate ineligible cost was inappropriate. The District was told by the SCO auditors after their site visits, that the times that were claimed for the various staff at the various school sites were reasonable. We therefore do not feel it is acceptable for the SCO to reduce the claimed amounts by the percentages provided by the California State Department of Education (SDE) for the CST and CAPA portions of STAR.

**Finding #2:** Your office changed the interpretation of the parameters and guidelines which state that *"the reimbursement for this mandate 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."* This was previously interpreted to be any monies that were received for the express purpose of the mandate. For example, the funding received for the testing process should be recorded and deducted from the cost to implement the testing.

The *new* interpretation is that if an employee is paid out of a state or federal funding, their costs shall be deducted from the claim. Our funding is 98% state and federal funding. This interpretation would effectively eliminate any reimbursement. Your office decided to interpret this language to mean any state and federal *categorical* funds. They proceeded to deduct the salaries of employees that were charged to the Special Education Program, Title I Part A, and School Based Coordinated Program.

These programs are very under-funded and supported with our General Fund Revenues. Special Education alone encroached more than \$5 million in 2002-03 and in 2003-04. Title I Part A

serves disadvantaged as well as low performing students, while the School Based Coordinated Program serves all the students who need assistance in core curriculum. The cost of these programs far exceeds the revenue that is received. To now interpret the guidelines to say if an employee is paid out of these resources, the State will *not reimburse* the costs in the mandate program is *wrong*. If this interpretation existed in 2002-03 and/or 2003-04, accounting adjustments would have been made to move the salaries to the General Fund to meet the requirements.

At a minimum, full funding should be provided and if the State is concerned with the use of those dollars, the District is willing to direct those funds back to the various programs.

This is the response to Finding #2 from our outside experts:

- The SCO stated that the District understated offsetting reimbursements by a net amount of \$36,570 for the audit period. The District believes, based on the SCO findings, that the offsetting reimbursements claimed were actually overstated, not understated, since they included CST and CAPA. If these offsets are reduced as shown by the SCO calculations, then the District should have only offset an amount of \$26,538 (instead of \$58,687) for 2002-2003, and \$27,264 (instead of \$58,975) for 2003-2004, thus increasing the claimable amounts.
- The District's position, as it relates to including staff who are funded by restricted sources, is that staff funded 100% by either federal and/or state categorical funds, should be allowable. The District believes that costs for special/categorically funded and special education staff should be allowable because of the fact that these staff members are performing their duties in addition to their regular job assignments and/or the District is supporting the positions because of deficit funding for these programs. We believe that these costs should be claimable and reinstated. The SCO states that the District did not offset claimed costs by employees funded with restricted resources totaling \$166,780, and that \$90,372 related to the mandate (using the methodology in Finding 1). We do not believe that any negative offset should be imposed for restricted funded staff.

#### Other Comments

- The District takes exception to most all of the SCO audit findings for staff that lacked adequate documentation. We identified many of the staff that could not be verified by the SCO. Many of those disallowed resulted from name misspellings or handwriting illegibility. Others were disallowed because of the fact they were retirees who did not appear on the HRS reports. We did correct/modify the SCO's funding source adjustment forms for both FY 2002-2003 and 2003-2004 in May 2007. (We did not extend the adjustments on the spreadsheet.) We believe that most staff claimed was properly included. The certificated retiree staff claimed was not found on the HRS report since they were not considered current employees, but they should be allowed because the District incurred the cost during the testing period. We are not sure if this updated/corrected report is included in this Draft audit report.

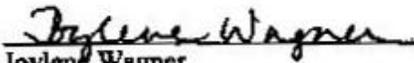
Summary

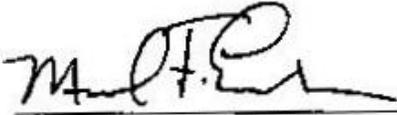
The District believes that the majority of costs contained in the STAR claims for FY 2002-2003 and 2003-2004 were proper and correct and that most disallowances were inappropriate. The District filed both STAR claims in good faith, and the times and methods of data collection were reasonable and appropriate. It is our position that the SCO should reconsider its audit findings and reinstate most of the disallowances. It is not appropriate to change guidelines and/or their interpretation after the claims filing deadline.

As the State Controller, you should be aware of the challenges districts have in complying with the Mandated Cost Program. It is complex and necessitates outside assistance to file; the State auditors bring new interpretations to the guidelines when they audit; their audit process is overly burdensome; and the rules are changed retroactively resulting in decreased claims. It is important for you to be aware that when your auditors report back that they are disallowing over 50% of the claims that are filed, it is not because of fraud, it is because changes in the rules are being applied retroactively and/or four years later people have changed jobs and their time logs are no longer sufficient.

It is our hope that you will review the process that is currently in place and be supportive of changes that will allow the schools to focus on their primary objective of teaching children. Please feel free to contact us at (818) 241-3111, Ext. 215, or Eva Rae Lueck, our Chief Business and Financial Officer at Ext. 271, should you have any questions. Your assistance is very much appreciated in this matter.

Sincerely,

  
Joylene Wagner  
President, Board of Education

  
Michael F. Escalante, Ed.D.  
Superintendent

- c: Jeffrey V. Brownfield, Chief, Division of Audits  
Jeff Goldstein, Maximus  
Eva Rae Lueck, Chief Business and Financial Officer  
Mike Lee, Director, Financial Services and Asset Management

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