SWEETWATER UNION HIGH SCHOOL DISTRICT

Revised Audit Report

STANDARDIZED TESTING AND REPORTING PROGRAM

Chapter 828, Statutes of 1997

July 1, 1997, through June 30, 2004

JOHN CHIANG
California State Controller

October 2012

JOHN CHIANG
California State Controller

October 22, 2012

Pearl Quiñones, President
Board of Education
Sweetwater Union High School District
1130 Fifth Avenue
Chula Vista, CA 91911-2896

Dear Ms. Quiñones:

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

This revised report supersedes our previous report issued January 21, 2009. We revised the final report to include allowable salaries and benefits and materials and supplies based on documentation included with the district's Incorrect Reduction Claim submitted to the Commission on State Mandates and to correct errors in the reimbursable percentages related to the mandated STAR Program.

The district claimed $1,520,820 for the mandated program. Our audit disclosed that $1,051,703 is allowable and $469,117 is unallowable. The costs are unallowable primarily because the district claimed non-mandate related costs. The State paid the district $74,034. The State will pay allowable costs claimed that exceed the amount paid, totaling $977,669, 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: Edward Brand, Ed.D., Superintendent of Schools
Sweetwater Union High School District
Randolph E. Ward, Ed.D., County Superintendent of Schools
San Diego County Office of Education
Scott Hannan, Director
School Fiscal Services Division
California Department of Education
Carol Bingham, Director
Fiscal Policy Division
California Department of Education
Thomas Todd, Assistant Program Budget Manager
Education Systems Unit
Department of Finance

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Revised Audit Report

Summary

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

The district claimed $1,520,820 for the mandated program. Our audit disclosed that $1,051,703 is allowable and $469,117 is unallowable. The costs are unallowable primarily because the district claimed non-mandate related costs. The State paid the district $74,034. The State will pay allowable costs claimed that exceed the amount paid, totaling $977,669, contingent upon available appropriations.

Background

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

The STAR Program requires school districts, between March 15 and May 15 of each year, to test all students in grades 2 through 11 with a nationally-normed achievement test designated by the State Board of Education. School districts administered the Stanford Achievement Test, Ninth Edition (SAT-9) test in English to all pupils enrolled in grades 2 through 11 from fiscal year (FY) 1997-98 through FY 2001-02. The California Achievement Test, Sixth Edition Survey (CAT/6) replaced the SAT-9 test effective for FY 2002-03. School districts administered the CAT/6 test in English to all pupils enrolled in grades 2 through 11 for FY 2002-03 and FY 2003-04. In addition, school districts administered an additional test, the Spanish Assessments 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 fewer than 12 months prior to the date 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 mandated 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.

On December 9, 2005, the CSM renamed the STAR Program to the National Norm-Referenced Achievement Test Program and adopted the parameters and guidelines for the new program, effective July 1, 2004. The parameters and guidelines clarify that only the activities of administering the CAT/6 in grades 3 and 7 imposes a reimbursable state mandate on school districts and that all other activities were either federally mandated or no longer required. The CSM also clarified the remaining reimbursable activities. Therefore, recommendations contained in this report have applicability to the National Norm-Referenced Achievement Test Program.

Objective, Scope, and Methodology

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

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

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

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

We asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by generally accepted government auditing standards. However, the district 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, Sweetwater Union High School District claimed $1,520,820 for costs of the Standardized Testing and Reporting Program. Our audit disclosed that $1,051,703 is allowable and $469,117 is unallowable.

The State paid the district $74,034. Our audit disclosed that $1,051,703 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling $977,669, contingent upon available appropriations.

Views of Responsible Officials

We issued a draft audit report on October 17, 2008. Dianna Russo, Chief Financial Officer, responded by letter dated November 7, 2008 (Attachment), disagreeing with the audit findings. This final audit report includes the district's response.

Subsequent to the issuance of the final report, the district filed an Incorrect Reduction Claim (08-9723-I-02) with the CSM that included additional supporting documentation and analysis related to salaries and benefits. Based on the documentation submitted with the Incorrect Reduction Claim, we revised our previous position relating to supporting costs with contemporaneous source documentation during the audit period. As a result, we reinstated hours claimed that previously were determined to be unsupported. In updating the audit results, we also increased the mandate-related percentages of the STAR testing costs for FY 1998-99 through FY 2003-04 based on test results reported by the California Department of Education.

As a result of these revisions, the total audit adjustment in this revised final report decreased by $977,669, from $1,446,786 to $469,117, primarily due to reinstated salary and benefit costs.

We provided the district with a copy of the documentation supporting the above adjustments on September 24, 2012. The district responded by letter dated September 27, 2012, concurring with the adjustments.

Restricted Use

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

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

October 22, 2012

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

Cost Elements/Mandated Activities	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 1997, through June 30, 1998				
Salaries and benefits:				
Training, policies, and procedures	$ 10,560	$ 10,560	$ —	
Pre-test and post-test coordination	88,828	88,828	—	
Test administration	6,118	6,118	—	
Reporting and recordkeeping	8,053	8,053	—	
Total salaries and benefits	113,559	113,559	—	
Materials and supplies:				
Test materials, supplies, and equipment	162,687	126,845	(35,842)	Finding 2
Total materials and supplies	162,687	126,845	(35,842)	
Total direct costs	276,246	240,404	(35,842)	
Indirect costs	13,702	11,467	(2,235)	Finding 3
Total direct and indirect costs	289,948	251,871	(38,077)	
Less offsetting reimbursements	(172,815)	(172,815)	—	
Total program costs	$ 117,133	79,056	$ (38,077)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 79,056		
July 1, 1998, through June 30, 1999				
Salaries and benefits:				
Training, policies, and procedures	$ 13,432	$ 10,147	$ (3,285)	Finding 1
Pre-test and post-test coordination	129,429	97,771	(31,658)	Finding 1
Test administration	9,023	7,017	(2,006)	Finding 1
Reporting and recordkeeping	9,803	7,405	(2,398)	Finding 1
Total salaries and benefits	161,687	122,340	(39,347)	
Materials and supplies:				
Training, policies, and procedures	42	42	—	
Test materials, supplies, and equipment	152,009	150,235	(1,774)	Finding 2
Reporting and recordkeeping	11,282	11,282	—	
Total materials and supplies	163,333	161,559	(1,774)	
Total direct costs	325,020	283,899	(41,121)	
Indirect costs	16,706	11,044	(5,662)	Finding 3
Total direct and indirect costs	341,726	294,943	(46,783)	
Less offsetting reimbursements	(203,651)	(153,838)	49,813	Finding 4
Subtotal	138,075	141,105	3,030	
Less allowable costs that exceed costs claimed [2]	—	(3,030)	(3,030)	
Total program costs	$ 138,075	138,075	$ —	
Less amount paid by the State [3]		(71,738)		
Allowable costs claimed in excess of (less than) amount paid		$ 66,337		

Revised Schedule 1 (continued)

Cost Elements/Mandated Activities	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 1999, through June 30, 2000				
Salaries and benefits:				
Training, policies, and procedures	$ 23,433	$ 17,399	$ (6,034)	Finding 1
Pre-test and post-test coordination	160,432	119,121	(41,311)	Finding 1
Test administration	18,394	13,658	(4,736)	Finding 1
Reporting and recordkeeping	9,911	7,359	(2,552)	Finding 1
Total salaries and benefits	212,170	157,537	(54,633)	
Materials and supplies:				
Training, policies, and procedures	162	162	—	
Test materials, supplies, and equipment	9,726	—	(9,726)	Finding 2
Pre-test and post-test coordination	4,888	9,726	4,838	Finding 2
Reporting and recordkeeping	—	31,769	31,769	Finding 2
Total materials and supplies	14,776	41,657	26,881	
Total direct costs	226,946	199,194	(27,752)	
Indirect costs	10,394	10,239	(155)	Finding 3
Total direct and indirect costs	237,340	209,433	(27,907)	
Less offsetting reimbursements	(71,959)	(53,430)	18,529	Finding 4
Total program costs	$ 165,381	156,003	$ (9,378)	
Less amount paid by the State [3]		(2,296)		
Allowable costs claimed in excess of (less than) amount paid		$ 153,707		
July 1, 2000, through June 30, 2001				
Salaries and benefits:				
Training, policies, and procedures	$ 29,107	$ 18,710	$ (10,397)	Finding 1
Pre-test and post-test coordination	194,253	123,856	(70,397)	Finding 1
Test administration	25,032	16,545	(8,487)	Finding 1
Reporting and recordkeeping	12,149	7,746	(4,403)	Finding 1
Total salaries and benefits	260,541	166,857	(93,684)	
Materials and supplies:				
Training, policies, and procedures	484	—	(484)	Finding 2
Test materials, supplies, and equipment	8,807	—	(8,807)	Finding 2
Pre-test and post-test coordination	6,814	3,183	(3,631)	Finding 2
Reporting and recordkeeping	9,730	9,409	(321)	Finding 2
Total materials and supplies	25,835	12,592	(13,243)	
Total direct costs	286,376	179,449	(106,927)	
Indirect costs	11,885	12,220	335	Finding 3
Total direct and indirect costs	298,261	191,669	(106,592)	
Less offsetting reimbursements	(77,495)	(49,411)	28,084	Finding 4
Total program costs	$ 220,766	142,258	$ (78,508)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 142,258		

Revised Schedule 1 (continued)

Cost Elements/Mandated Activities	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 2001, through June 30, 2002				
Salaries and benefits:				
Training, policies, and procedures	$ 33,103	$ 21,103	$ (12,000)	Finding 1
Pre-test and post-test coordination	239,729	152,827	(86,902)	Finding 1
Test administration	23,630	15,064	(8,566)	Finding 1
Reporting and recordkeeping	20,337	12,965	(7,372)	Finding 1
Total salaries and benefits	316,799	201,959	(114,840)	
Materials and supplies:				
Training, policies, and procedures	15	15	—	
Test materials, supplies, and equipment	7,007	—	(7,007)	Finding 2
Pre-test and post-test coordination	2,363	—	(2,363)	Finding 2
Reporting and recordkeeping	13,956	13,446	(510)	Finding 2
Total materials and supplies	23,341	13,461	(9,880)	
Total direct costs	340,140	215,420	(124,720)	
Indirect costs	14,116	8,983	(5,133)	Finding 3
Total direct and indirect costs	354,256	224,403	(129,853)	
Less offsetting reimbursements	(77,495)	(51,465)	26,030	Finding 4
Total program costs	$ 276,761	172,938	$ (103,823)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 172,938		
July 1, 2002, through June 30, 2003				
Salaries and benefits:				
Training, policies, and procedures	$ 24,918	$ 15,038	$ (9,880)	Finding 1
Pre-test and post-test coordination	218,002	132,491	(85,511)	Finding 1
Test administration	23,756	14,472	(9,284)	Finding 1
Reporting and recordkeeping	21,096	12,731	(8,365)	Finding 1
Total salaries and benefits	287,772	174,732	(113,040)	
Materials and supplies:				
Training, policies, and procedures	423	—	(423)	Finding 2
Test materials, supplies, and equipment	6,090	—	(6,090)	Finding 2
Pre-test and post-test coordination	7,672	4,449	(3,223)	Finding 2
Reporting and recordkeeping	14,525	9,934	(4,591)	Finding 2
Total materials and supplies	28,710	14,383	(14,327)	
Travel and training:				
Training, policies, and procedures	37	37	—	
Total direct costs	316,519	189,152	(127,367)	
Indirect costs	13,136	7,850	(5,286)	Finding 3
Total direct and indirect costs	329,655	197,002	(132,653)	
Less offsetting reimbursements	(80,730)	(49,906)	30,824	Finding 4
Total program costs	$ 248,925	147,096	$ (101,829)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 147,096		

Revised Schedule 1 (continued)

Cost Elements/Mandated Activities	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
July 1, 2003, through June 30, 2004				
Salaries and benefits:				
Training, policies, and procedures	$ 46,647	$ 28,175	$ (18,472)	Finding 1
Test materials, supplies, and equipment	3,186	—	(3,186)	Finding 1
Pre-test and post-test coordination	275,558	167,665	(107,893)	Finding 1
Test administration	24,492	15,039	(9,453)	Finding 1
Reporting and recordkeeping	13,618	8,191	(5,427)	Finding 1
Total salaries and benefits	363,501	219,070	(144,431)	
Materials and supplies:				
Training, policies, and procedures	615	615	—	
Test materials, supplies, and equipment	24,903	—	(24,903)	Finding 2
Pre-test and post-test coordination	8,483	21,078	12,595	Finding 2
Reporting and recordkeeping	13,995	12,841	(1,154)	Finding 2
Total materials and supplies	47,996	34,534	(13,462)	
Travel and training:				
Training, policies, and procedures	37	37	—	
Total direct costs	411,534	253,641	(157,893)	
Indirect costs	24,939	15,371	(9,568)	Finding 3
Total direct and indirect costs	436,473	269,012	(167,461)	
Less offsetting reimbursements	(82,694)	(52,735)	29,959	Finding 4
Total program costs	$ 353,779	216,277	$ (137,502)	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		$ 216,277		

Revised Schedule 1 (continued)

Cost Elements/Mandated Activities	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference [1]
Summary: July 1, 1997, through June 30, 2004				
Salaries and benefits:				
Training, policies, and procedures	$ 181,200	$ 121,132	$ (60,068)	
Test materials, supplies, and equipment	3,186	—	(3,186)	
Pre-test and post-test coordination	1,306,231	882,559	(423,672)	
Test administration	130,445	87,913	(42,532)	
Reporting and recordkeeping	94,967	64,450	(30,517)	
Total salaries and benefits	1,716,029	1,156,054	(559,975)	
Materials and supplies:				
Training, policies, and procedures	1,741	834	(907)	
Test materials, supplies, and equipment	371,229	277,080	(94,149)	
Pre-test and post-test coordination	30,220	38,436	8,216	
Reporting and recordkeeping	63,488	88,681	25,193	
Total materials and supplies	466,678	405,031	(61,647)	
Travel and training:				
Training, policies, and procedures	74	74	—	
Total direct costs	2,182,781	1,561,159	(621,622)	
Indirect costs	104,878	77,174	(27,704)	
Total direct and indirect costs	2,287,659	1,638,333	(649,326)	
Less offsetting reimbursements	(766,839)	(583,600)	183,239	
Subtotal	1,520,820	1,054,733	(466,087)	
Less allowable costs that exceed costs claimed	—	(3,030)	(3,030)	
Total program costs	$ 1,520,820	1,051,703	$ (469,117)	
Less amount paid by the State		(74,034)		
Allowable costs claimed in excess of (less than) amount paid		$ 977,669		

[1] See the Revised Findings and Recommendations section.

[2] Government Code section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 1998-99.

[3] Payment from funds appropriated under Chapter 724, Statutes of 2010 (Assembly Bill No. 1610).

Revised Findings and Recommendations

FINDING 1—
Unallowable salaries and benefits

The district claimed $1,716,029 in salaries and benefits for the audit period. We determined that $1,156,054 is allowable and $559,975 is unallowable. The costs are unallowable because the district claimed non-mandate related costs.

Reinstated Costs

In our final audit report dated January 21, 2009, we reported unsupported salaries and benefits totaling $1,672,217 for the audit period. However, we reconsidered the initial finding in light of the information addressed in the district's incorrect reduction claim filed with the Commission on State Mandates.

In the initial final report, we concluded that supporting documentation provided was inadequate because the time logs provided estimates and summarized time spent performing STAR activities. We did not allow any costs without contemporaneous documentation that validated the hours claimed.

However, we revisited the contemporaneous source documentation requirement. We reconsidered our prior finding and accepted the time documentation submitted with the claims. We calculated allowable portion of the costs for this program for the audit period based on claimed salaries and benefits.

This revised audit report also reclassified and moved allowable hours claimed under test materials, supplies, and equipment component to the pre-test and post-test coordination component. The report also added additional hours previously unclaimed that were supported with the documentation submitted with the district's incorrect reduction claim.

Revised Reimbursable Percentage

To determine revised allowable costs, we calculated what portion of the salaries and benefits were attributed to the STAR tests that are reimbursable under the mandate.

The district's STAR costs included the following tests: California Standards Tests (CST); California Alternate Performance Assessment (CAPA); California Modified Assessment (CMA); Stanford Achievement Test, Ninth Edition (SAT/9); California Achievement Test, Sixth Edition Survey (CAT/6 Survey); and Spanish Assessment of Basic Education, Second Edition (SABE/2). The CST, CAPA, and CMA tests are not reimbursable because they were not pled in the test claim that created this mandate. The district accounted for the costs of the STAR tests collectively, without separately identifying costs by individual test. Consequently, the district claimed costs not reimbursable under the mandate.

To segregate reimbursable costs, we revised the percentages of the tests that related to the mandate based on the number of tests published on the California Department of Education (CDE) STAR website. The reimbursable percentages represented the ratio of mandated tests over all STAR tests administered in the district. We applied the reimbursable percentages to claimed salaries and benefits.

The reimbursable percentages increased for FY 1998-99 through FY 2003-04 from 48.98%, based on a district-calculated percentage that we used in our initial final report. The revised reimbursable percentages for mandated costs were as follows: 100% for FY 1997-98; 75.54 % for FY 1998-99; 74.25% for FY 1999-2000; 63.76% for FY 2000-01; 63.75% for FY 2001-02; 60.35% for FY 2002-03; and 60.15% for FY 2003-04.

This revised report increased allowable salaries and benefits by $1,112,242 based on the information in the district's incorrect reduction claim and the increase in the mandate-related percentages. The allowable salaries and benefits increased from previously reported $43,812 to $1,156,054.

The following table summarizes the revised unallowable salaries and benefits costs by fiscal year and reimbursable activities:

	Fiscal Year						
	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Total
Salaries and benefits:							
Training, policies, and procedures	$ (3,285)	$ (6,034)	$ (10,397)	$ (12,000)	$ (9,880)	$ (18,472)	$ (60,068)
Test, materials, and equipment	—	—	—	—	—	(3,186)	(3,186)
Pre-test and post-test coordination	(31,658)	(41,311)	(70,397)	(86,902)	(85,511)	(107,893)	(423,672)
Test administration	(2,006)	(4,736)	(8,487)	(8,566)	(9,284)	(9,453)	(42,532)
Reporting and recordkeeping	(2,398)	(2,552)	(4,403)	(7,372)	(8,365)	(5,427)	(30,517)
Audit adjustment	$ (39,347)	$ (54,633)	$ (93,684)	$ (114,840)	$ (113,040)	$ (144,431)	$ (559,975)

The program's 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 of 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 claim only costs that are reimbursable under the program's parameters and guidelines and that are properly supported with source documents.

District's Response

The district claimed that the draft report did not specify the amounts attributable to: (1) inadequate documentation, (2) incorrect calculation of productive hourly rates, (3) overstated hours, (4) application of incorrect indirect costs rates, and (5) costs claimed under a reimbursable component that was no longer in effect.

The district also stated that:

> The Controller's standard is that all mandate activities of each employee should be recorded contemporaneously on some sort of daily time sheet and this record be further corroborated by independent evidence. There is no requirement in the parameters and guidelines governing this program that source documentation be completed contemporaneously or matched with corroborating evidence.

The district claimed that the time records and/or worksheets provided to the auditor are source documents that show evidence of and the validity of the costs claimed. Each of the employee's time record sheets contains a periodic tally of time spent by the employee on the mandated activities.

The district claimed that employee' certifications that were dated after the fact do not constitute a valid reason to reject submitted time logs.

The district stated that due to the lack of detail in the draft audit report, it cannot determine the amount of the adjustment attributable to the overstated and understated productive hourly rates. Also, the district stated that it fully complied with the parameters and guidelines by reporting each employee implementing the reimbursable activities by name, job classification, and productive hourly rate. The district stated that the lack of source of documentation is not a valid reason for an audit adjustment.

The district agreed with our adjustments for overstated hours attributable to time spent on non-reimbursable tests.

The district stated that SCO misinterpreted the significance of the Test Materials, Supplies, and Equipment reimbursable component and that the limitation of this activity applies to statewide materials that the district paid for directly until December 15, 1999.

SCO's Comment

We revised the final report to reinstate all claimed hours and revise the mandate-related percentage. Consequently, allowable salaries and benefits increased by $1,112,242 from $43,812 to $1,156,054.

We agree that the parameters and guidelines require that claimed costs be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities. We reinstated claimed hours.

The unallowable Test Materials, Supplies, and Equipment costs relates to salaries and benefits, not materials and supplies. The allowable hours were relocated to the pre-test and post-test component, and training.

FINDING 2—
Misstated materials and supplies

The district claimed $466,752 for materials and supplies for the audit period. We determined that $405,031 is allowable and $61,647 is unallowable.

For FY 1997-98, FY 2001-02, and FY 2002-03, the district claimed unsupported costs and costs for non-reimbursable materials such as Annual Performance Index Software and Math Balanced Assessment in Mathematics.

For FY 2000-01 through FY 2003-04, the district claimed pre-test and post-test postage costs associated with parent guidance letters sent out during the pre-test and post-test coordination, which are not reimbursable.

The district incorrectly categorized costs under the reimbursable test materials, supplies, and equipment component after December 15, 1999, the rescission date of this component. Any allowable costs identified were relocated to the appropriate reimbursable component.

This revised report increased allowable materials and supplies costs reported in the initial final report by $38,995 because we reinstated previously pro-rated costs to 100% and added a few additional costs that were previously unallowable.

The following table summarizes the revised overstated materials and supplies costs by fiscal year and reimbursable activities:

	Fiscal Year							
Cost Categories	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Total
Materials and Supplies								
Training, policies, and procedures	$ —	$ —	$ —	$ (484)	$ —	$ (423)	$ —	$ (907)
Test, materials, supplies and equipment	(35,842)	(1,774)	(9,726)	(8,807)	(7,007)	(6,090)	(24,903)	(94,149)
Pre-test and post-test coordination	—	—	4,838	(3,631)	(2,363)	(3,223)	12,595	8,216
Reporting and recordkeeping	—	—	31,769	(321)	(510)	(4,591)	(1,154)	25,193
Audit adjustment	$ (35,842)	$ (1,774)	$ 26,881	$ (13,243)	$ (9,880)	$ (14,327)	$ (13,462)	$ (61,647)

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

> Test Materials, Supplies, and Equipment (Reimbursement period: January 2, 1998 –December 15, 1998)

The parameters and guidelines (sections 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 (sections V.A.2.) require the district to report the costs of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities.

The parameters and guidelines (sections VI.A) state that 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 claimed costs are for activities reimbursable under the program's parameters and guidelines and are properly supported with source documents.

District's Response

The district stated that it is unable to assess the adjustments associated to materials and supplies due to missing adjustment amounts for non-reimbursable tests, postage for guidance letters to parents, and costs claimed under the Test Materials, Supplies, and Equipment component after December 15, 1999.

The district stated that it is unable to determine if reductions applicable to overstated STAR costs were properly calculated because the adjustments were not disclosed in the draft report.

The district states that the parameters and guidelines allow for reimbursement of relevant materials and supplies, and not all of the claimed materials and supplies related to the statewide materials provided to the district but paid for directly by the State.

SCO's Comment

We revised the final report to reinstate previously pro-rated and unallowable costs. Consequently, allowable materials and supplies costs increased by $38,995, from $366,036 to $405,031.

We sent the district detail worksheets supporting the materials and supplies audit adjustments. The adjustments primarily pertain to non-reimbursable materials and supplies, as well as to costs claimed past the reimbursement period for the Test Materials, Supplies, and Equipment component.

The parameters and guidelines allow the purchase of materials and supplies under the Test Materials, Supplies, and Equipment component. However, reimbursement is subject to the reimbursement period of January 2, 1998, through December 15, 1999. We allowed any reimbursable costs claimed under this component, but relocated these costs to the proper component.

FINDING 3—Misstated indirect costs

The district claimed $104,878 in indirect costs for the audit period. Our audit determined that $77,174 is allowable and $27,704 is unallowable. The costs were unallowable because of the direct cost adjustments identified in Findings 1 and 2. The district also misstated indirect costs by a net amount of $1,925 (overstated by $4,006 for FY 1997-98 and FY 1998-99 and understated by $5,931 for FY 1999-2000, FY 2000-01, and FY 2001-02). The misstated costs occurred because the district claimed incorrect indirect cost rates in FY 1997-98 through FY 2001-02.

The following tables summarize the revised indirect cost rate variances by fiscal year:

	Fiscal Year					
	1997-98	1998-99	1999-2000	2000-01	2001-02	Total
Indirect cost rates:						
Allowable indirect cost rate	4.77%	3.89%	5.14%	6.81%	4.17%	
Claimed indirect cost rate	4.96%	5.14%	4.58%	4.15%	4.15%	
Indirect rate adjustments	× (0.19)%	× (1.25)%	× 0.56%	× 2.66%	× 0.02%	
Allowable direct costs	$ 240,404	$ 283,899	$ 199,194	$ 179,449	$ 215,405	
Audit adjustment	$ (457)	$ (3,549)	$ 1,115	$ 4,773	$ 43	$ 1,925

The following table summarizes the revised indirect cost calculations by fiscal year:

	Fiscal Year							
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Total
Indirect costs:								
Allowable direct cost	$ 240,404	$ 283,899	$ 199,194	$ 179,449	$ 215,420	$ 189,152	$ 253,641	$ 1,561,159
Allowable indirect rate	× 4.77%	× 3.89%	× 5.14%	× 6.81%	× 4.17%	× 4.15%	× 6.06%	
Allowable indirect costs	$ 11,467	$ 11,044	$ 10,239	$ 12,220	$ 8,983	$ 7,850	$ 15,371	77,174
Less claimed indirect costs	13,702	16,706	10,394	11,885	14,116	13,136	24,939	104,878
Audit adjustment	$ (2,235)	$ (5,662)	$ (155)	$ 335	$ (5,133)	$ (5,286)	$ (9,568)	$ (27,704)

This revised report increased allowable indirect costs by $58,200 based on reinstated direct costs. The allowable indirect costs increased from previously reported $18,974 to $77,174.

The parameters and guidelines (section V.B.) state that school districts must use the indirect cost rate approved by the California Department of Education.

Recommendation

We recommend that the district ensure that indirect cost rates it claims agree with CDE approved rates and that indirect costs are mandate-related and appropriately supported.

District's Response

The district stated that the $1,597 indirect cost rate finding was eliminated because it used unrestricted indirect cost rates. The parameters and guidelines require the use of an unrestricted indirect cost rate.

SCO's Comment

We revised the final report based on the adjusted allowable costs identified in Findings 1 and 2. As a result, the adjustment decreased by $58,200. Consequently, the allowable indirect costs increased from $18,974 to $77,174.

The parameters and guidelines indicate that school districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the CDE. Although the parameters and guidelines mandate the use of a "non-restrictive rate," they also state that school districts should use the rate on form J-380, which reports restricted indirect rates. Information reported in the CDE website indicates that the restricted rates approved are determined and developed in accordance with Education Department of General Administrative Regulations, Parts 75 and 76 of Title 34 of the *Code of Federal Regulations*, and are valid for both state and federal programs.

FINDING 4—Overstated reimbursements

The district claimed $766,839 in offsetting reimbursements for the audit period. We determined that the district overstated the mandate portion of STAR apportionments by $183,239 for the audit period.

The district reported the entire amounts of annual STAR apportionments it received from the CDE in each fiscal year rather than only claiming the mandate related portion of the apportionments. The district also erroneously reported FY 2000-01 annual apportionment for FY 2001-02 claim, FY 2001-02 apportionment for FY 2002-03 claim, and FY 2002-03 apportionment for FY 2003-04 claim.

We calculated the correct offsetting reimbursements by:

- Verifying the amounts of annual STAR apportionments received by the district, and
- Applying the revised mandate-related ratio of mandated tests over all STAR tests administered in the district (as identified in Finding 1).

This revised report increased offsetting reimbursements in the initial final report by $115,468 because of the increases in the mandate-related percentages as discussed in Finding 1.

The following table summarizes the revised overstated offsetting reimbursements by fiscal year:

	Fiscal Year							
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	Total
Offsetting reimbursements apportionments:								
CDE apportionments	$ 172,815	$ 203,651	$ 71,959	$ 77,495	$ 80,730	$ 82,694	$ 87,672	$ 777,016
Mandate-related percentage	× (100.0)%	× (75.54)%	× (74.25)%	× (63.76)%	× (63.75)%	× (60.35)%	× (60.15)%	
Audited apportionment	(172,815)	(153,838)	(53,430)	(49,411)	(51,465)	(49,906)	(52,735)	$ (583,600)
Claimed CDE apportionments	172,815	203,651	71,959	77,495	77,495	80,730	82,694	766,839
Audit adjustment	$ —	$ 49,813	$ 18,529	$ 28,084	$ 26,030	$ 30,824	$ 29,959	$ 183,239

The parameters and guidelines (section VII) state:

> Any offsetting savings the claimant experiences in the same program as a result of the same statues 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 reimbursements are offset on its claims against its mandated program costs.

District's Response

The district stated that the SCO did not limit the offset of reimbursements to the costs of specific mandate activities, and instead applied the offset to the entire amount of claimed costs. The district indicated that the parameters and guidelines state that the funding provided from the state budget for the STAR program can be offset only to specific activities.

SCO's Comment

We revised the offset amount based on reimbursable percentage revisions discussed in Finding 1. Consequently, overstated reimbursements decreased by $115,468, from $298,707 to $183,239.

Based on the revision to the reimbursable percentages, the revenue offsets related to mandated activities increased.

We acknowledge that specific activities are mentioned in the parameters and guidelines under "Offsetting Savings and Reimbursements." The program's parameters and guidelines indicate that the offset should be applied to all of the reimbursable components. These include:

- Designating site and district coordinators;
- Exempting pupils from STAR program tests upon request of the parent or guardian;
- Coordinating testing at the test site; and
- Reporting data to the school district governing board or county of office of education and the Superintendent of Public Instruction.

Additionally, the parameters and guidelines indicate that "reimbursements for this mandate received from any sources including. . . other state funds shall be identified and deducted from the claim."

Furthermore, the apportionment notices sent to the school districts annually, indicate that the funds apportioned are for participation in the STAR Program in accordance with criteria specified in Chapter 828, Statutes of 1997, in order to reimburse districts for costs associated with the annual STAR testing cycle.

OTHER ISSUES

In response to the draft audit report, the district addressed the following issues that arose during the audit.

Basis for Adjustments

District's Response

> The draft audit report (page 2) states that the audit was conducted under the authority of Government Code Section 17561 (among others). However, the draft audit report does not assert that the claimed costs were excessive or unreasonable, which is the only mandated cost audit standard in statute (Government Code Section 17561(d)(2)).
>
> The draft audit report (page 2) also states that "generally accepted government auditing standards" were used to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings. . ." However, the draft audit report, as discussed below, asserts unpublished standards of "evidence" in excess of the parameters and guidelines and Government Code. It would therefore appear that the entire findings are based upon the wrong standard for review. If the Controller wishes to enforce other audit standards for mandated cost reimbursement, the Controller should comply with the Administrative Procedures Act.

SCO's Comment

Government Code section 17558.5 requires the district to file a reimbursement claim for actual mandate-related costs. Government Code section 17561, subdivision (d)(2), allows the SCO to audit the district's records to verify actual mandate-related costs and reduce any claim that the SCO determines is excessive or unreasonable. In addition, Government Code section 12410 states, "The Controller shall audit all claims against the state, and may audit the disbursement of any state money for correctness, legality, and for sufficient provisions of law for payment."

The SCO did conclude that the district's claimed costs were excessive. "Excessive" is defined as "exceeding what is usual, proper, necessary, or normal. . . . "Excessive" implies an amount or degree too great to be reasonable or acceptable. . . ."[1] The district overstated claimed costs by including the STAR tests required per the California Department of Education's STAR program, rather than those allowable per the program's parameters and guidelines.

[1] Merriam-Webster's Collegiate Dictionary, Tenth Edition, © 2001

Public Records Request

District's Response

> The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period that defines the type of source documentation required, timing of the date of the preparation of employee time records, and the prohibition of declarations as unacceptable documentation. Government Code section 6253, subdivision (c), requires the state agency that is the subject of the request, within 10 days of receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the requesting party of that determination and the reason therefore. Also, as required, when so notifying the District, please state the estimated date and time when records will be made available.

SCO's Comment

On December 9, 2008, we sent the district the requested documentation applicable to the STAR program for the audit period.

Attachment—
District's Response to
Draft Audit Report

SWEETWATER
UNION HIGH SCHOOL DISTRICT
Dianne Russo, Chief Financial Officer
1130 Fifth Avenue, Chula Vista, CA 91911-2896
Telephone: (619) 691-5550 FAX: (619) 425-3394

November 7, 2008

Mr. Jim L. Spano, Chief
Mandated Costs Audits Bureau
California State Controller
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Sweetwater Union High School District
828/97 Standardized Testing and Reporting (STAR) Program
Fiscal Years 1997-98 through 2003-04

Dear Mr. Spano:

This letter is the response of Sweetwater Union High School District to the letter of Jeffrey V. Brownfield, dated October 17, 2008, and received by the District on October 23, 2008, which transmits a draft copy of your audit report of the District's Standardized Testing and Reporting (STAR) annual reimbursement claims, for the period of July 1, 1997 through June 30, 2004.

Basis for the Adjustments

The draft audit report (page 2) states that the audit was conducted under the authority of Government Code Section 17561 (among others). However, the draft audit report does not assert that the claimed costs were excessive or unreasonable, which is the only mandated cost audit standard in statute (Government Code Section 17561(d) (2)).
The draft audit report (page 2) also states that "generally accepted government auditing standards" were used to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings . . . ." However, the draft audit report, as discussed below, asserts unpublished standards of "evidence" in excess of the parameters and guidelines and Government Code. It would therefore appear that the entire findings are based upon the wrong standard for review. If the Controller wishes to enforce other audit standards for mandated cost reimbursement, the Controller should comply with the Administrative Procedures Act.

The Audit Report Amounts

The draft audit report fails to adequately disclose the amounts adjusted by reason for each fiscal year. Instead, Findings 1 and 2 of the draft audit report list the amounts adjusted by *activity* for each fiscal year, but not the amounts by the *reason* for the adjustment. Since this presentation of information is identical to the information provided in the "summary of program costs" for each fiscal year, beginning on page 4 of the audit report, it does not increase the understanding of the costs disallowed. These deficiencies hinder a complete evaluation of the statement of findings.

understanding of the costs disallowed. These deficiencies hinder a complete evaluation of the statement of findings.

Finding 1 Unsupported salary and benefit costs

This finding eliminates $1,689,600 as *unallowable* salary and benefits costs with $80,243 in related indirect costs, for a total adjustment of $1,769,843. Five reasons are listed for these *unallowable* costs: (1) inadequate documentation, (2) incorrect calculation of productive hourly rates, (3) overstated hours, (4) application of incorrect indirect cost rates, and (5) costs claimed under a reimbursable component that was no longer in effect. However, the audit report does not specify the amounts attributable to each reason.

1. Inadequate Documentation

The draft audit report concludes that the time logs prepared by the District were inadequate because they were not prepared contemporaneously, hours were reported without dates or with date ranges exceeding six months, or the logs included more than one employee. The draft audit report does not disclose the amount of costs disallowed for each of these reasons.

The Controller's standard is that all mandate activities of each employee should be recorded contemporaneously on some sort of daily time sheet and that this record be further corroborated by independent evidence. There is no requirement in the parameters and guidelines governing this program that source documentation be completed contemporaneously or matched with corroborating evidence. The District cannot be held to an unpublished standard.

The parameters and guidelines actually require that "[f]or auditing purposes, all incurred costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities" and provide an enumeration of such documentation that includes "declarations." The parameters and guidelines make no demand for contemporaneous time records or additional corroborating documentation to supplement source documents. This is an unenforceable policy preference of the Controller.

The employee time records provided to the auditor satisfy the statute and the parameters and guidelines in that, as employee time records and/or worksheets, they are, themselves, source documents that show evidence of and the validity of the costs claimed. Each one of the employee time record sheets contains a periodic tally of time spent by the employee on mandated activities.

The Controller asserts that a post-facto summary of staff hours spent on the mandated activities is unacceptable, especially if the data is reported several months after the end of the fiscal year. The fact that the employees' certifications are dated after the activity reported occurred is not a valid objection since the parameters and guidelines specifically allow declarations, which by their nature are post-facto. In fact, in every court and tribunal in this nation, people competently testify as to facts that occurred weeks, months, and years past. Further, the fact that more than one employee's time is recorded on a single time log cannot be used as a basis for an audit adjustment because there is no requirement in the parameters and guidelines for each employee to keep a separate time log.

Therefore, the parameters and guidelines essentially only require claimants to "show" or "support" the costs claimed. While everyone involved in the mandate reimbursement process can regret the imprecision of these instructions, these instructions do not require as a specific condition of reimbursement that claimants provide the individual contemporaneous activity log sheets or time records the Controller has established after the fact as an audit requirement.

2. Productive Hourly Rates

The draft audit report states that employee salary amounts were understated and overstated because the District inverted the benefit rates for certificated and classified staff. Aside from the inadvertent inversion that occurred, the lack of detail in the draft audit report means the District is unable to determine the amount of the adjustment attributable to this finding for each fiscal year or ascertain whether this amount was correctly calculated.

The parameters and guidelines require the District to "report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate," and to "describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed." The District fully complied with this requirement in the preparation of the annual reimbursement claims. The audit report does not state that the District failed to do this and it is certainly not a valid reason for an adjustment based on lack of source documentation.

3. Overstated Hours

The draft audit report concludes that salaries and benefits were overstated because District staff reported hours dedicated to the entire STAR program, which includes tests that are considered non-reimbursable. The auditor calculated that 83% of salaries and benefits for test coordination were allowable in FY 1997-98, and accepted the District's calculation of 48.9% as allowable for FY 1998-99 through FY 2003-04.

The District does not dispute this finding. This should result in a reduction of test coordination costs by $15,101 for FY 1997-98, and $622,093 for FY 1998-99 through FY 2003-04. However, due to the lack of detail in the draft audit report, the District is unable to determine whether these are the amounts actually used to calculate the adjustment.

4. Indirect Cost Rates

This is a non-substantive application of Finding 3.

5. Test Materials, Supplies and Equipment

The draft audit report concluded that the District claimed costs under Test Materials, Supplies, and Equipment for FY 2003-04, ". . . which is beyond the reimbursement period of January 2, 1998, through December 15, 1999." The accompanying schedule shows that $3,186 is being disallowed for this reason. The draft audit report misconstrues the significance of the December 15, 1999 termination of this activity. The limitation of this activity applies to statewide standard testing materials that each district was required to pay for directly to the test provider until December 15, 1999, and for which the districts received state funding (but not actual reimbursement) of various amounts. After this date, the state paid for these statewide materials directly. However, the draft audit report does distinguish these state-limited costs from other relevant materials and supplies which were not statewide materials subject to this limitation.

Finding 2 Misstated Materials and Supplies

This finding eliminates $101,959 in materials and supplies, with $5,041 in related indirect costs, for a total adjustment of $107,000. The reasons stated for this adjustment include materials claimed for non-reimbursable tests, postage for guidance letters to parents, and costs claimed under Test Materials, Supplies, and Equipment after December 15, 1999. However, the District is unable to properly assess these adjustments because the draft audit report does not disclose the amount disallowed due to each reason.

The draft audit report also concluded that materials and supplies were claimed for the entire STAR program, and applied the same percentages derived in Finding 1 to reduce the costs claimed. However, the District is unable to determine whether this reduction was properly

calculated because the draft audit report does not disclose the amount of the adjustment that is attributable to this reason.

The auditor also needs to reevaluate the adjustment applicable to testing materials after December 15, 1999. The parameters and guidelines allow for reimbursement of relevant materials and supplies and not all of the claimed materials and supplies related to the statewide materials provided to the District but paid for directly by the state.

Finding 3 Misstated Indirect Cost Rates

This finding eliminates $1,597 because the District used the unrestricted indirect cost rates to prepare its claims. The parameters and guidelines require use of the unrestricted indirect cost rate.

Finding 4 Overstated Reimbursements

This finding concludes that the District overstated reimbursements by $328,086 because it claimed the funds received in their entirety, rather than determine the percentage attributable to the tests covered by this mandate. The draft audit report used the percentages derived in Finding 1 to reduce the offsetting revenue accordingly. Further, the draft audit report concluded that the District inadvertently understated apportionment amounts by $8,906 for FY 2001-02, FY 2002-03, and FY 2003-04.

However, the parameters and guidelines state that the funding provided in the State Budget for the STAR program can only be offset to the costs of specific mandate activities and not to the entire amount of claimed costs. The audit report does not so limit this offset to the specified activities.

Management Representation Letter

The draft audit report transmittal letter requests that the District submit a "management representation letter" within fifteen days. The district will not be providing this letter.

Public Records Request

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period that define the type of source documentation required, timing of the date of the preparation of employee time records, and the prohibition of declarations as unacceptable documentation. Government Code section 6253, subdivision (c), requires the state agency that is the subject of the request, within 10 days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in your possession and promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, please state the estimated date and time when the records will be made available.

Sincerely,

Dianne Russo

Dianne Russo, Chief Financial Officer

Sweetwater Union High School District

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

http://www.sco.ca.gov

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