

CLOVIS UNIFIED SCHOOL DISTRICT

Revised Audit Report

GRADUATION REQUIREMENTS PROGRAM

Chapter 498, Statutes of 1983

July 1, 1998, through June 30, 2002



JOHN CHIANG
California State Controller

April 2007



JOHN CHIANG
California State Controller

April 30, 2007

Terry Bradley, Ed.D., Superintendent
Clovis Unified School District
1450 Herndon Avenue
Clovis, CA 93611

Dear Dr. Bradley:

The State Controller's Office audited the claims filed by the Clovis Unified School District for costs of the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1998, through June 30, 2002. This final report supersedes the final report issued September 30, 2005, in which the entire costs claimed were determined to be unallowable.

We are reissuing the report to allow a portion of staffing and supply costs claimed as a result of the Commission on State Mandates' adoption of our reevaluation concerning the Sacramento County Superior Court 2004 ruling in the San Diego Unified School District et al. v. Commission on State Mandates et al., Case No. 03CS01401.

The district claimed \$8,053,465 (\$8,054,465 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$4,116,233 is allowable and \$3,937,232 is unallowable. The unallowable costs occurred because the district claimed unsupported staffing and supply costs and did not provide board certifications for construction costs. The State paid the district \$5,787,494. The amount paid exceeds allowable costs claimed by \$1,671,261.

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

Sincerely,

"Original signed by"

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

cc: William C. McGuire

Associate Superintendent
Administrative Services

Michael Johnston

Assistant Superintendent
Business Services
Clovis Unified School District

Larry L. Powell

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Contents

Revised Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Views of Responsible Official	2
Restricted Use	3
Revised Schedule 1—Summary of Program Costs	4
Revised Findings and Recommendations	6
Attachment—District’s Response to Revised Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Clovis Unified School District for costs of the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1998, through June 30, 2002. The last day of fieldwork was April 21, 2003.

The district claimed \$8,053,465 (\$8,054,465 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$4,116,233 is allowable and \$3,937,232 is unallowable. The unallowable costs occurred because the district claimed unsupported staffing and supply costs and did not provide board certifications for construction costs. The State paid the district \$5,787,494. The amount paid exceeds allowable costs claimed by \$1,671,261.

Background

Education Code Section 51225.3 (added by Chapter 498, Statutes of 1983) requires that beginning with the 1986-87 school year, no pupil shall receive a high school diploma without completing an additional science course above that which was required. The legislation was effective in fiscal year (FY) 1983-84; however, a district had up to three years to implement this requirement. Prior to enactment of Chapter 498, Statutes of 1983, one science course was required. As a result of this enactment, two science courses, one each of biological and physical sciences, are now required.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 498, Statutes of 1983, imposed a state mandate reimbursable under Government Code Section 17561.

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. COSM adopted *Parameters and Guidelines* on March 23, 1988, and last amended it on January 24, 1991. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Graduation Requirements Program for the period of July 1, 1998, through June 30, 2002.

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

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain

reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

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

Conclusion

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

For the audit period, Clovis Unified School District claimed \$8,053,465 (\$8,054,465 less a \$1,000 penalty for filing a late claim) for costs of the Graduation Requirements Program. Our audit disclosed that \$4,116,233 is allowable and \$3,937,232 is unallowable.

For the FY 1998-99 claim, the State paid the district \$3,345,091. Our audit disclosed that \$872,741 is allowable. The State will offset \$2,472,350 from other mandated program payments due to the district. Alternatively, the district may remit this amount to the State.

For the FY 1999-2000 claim, the State paid the district \$202,717. Our audit disclosed that \$1,013,686 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$810,969, contingent upon available appropriations.

For the FY 2000-01 claim, the State paid the district \$1,114,303. Our audit disclosed that \$1,087,805 is allowable. The State will offset \$26,498 from other mandated program payments due to the district. Alternatively, the district may remit this amount to the State.

For the FY 2001-02 claim, the State paid the district \$1,125,383. Our audit disclosed that \$1,142,001 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$16,618, contingent upon available appropriations.

Views of Responsible Official

We issued a final report on October 22, 2004, and revised it on September 30, 2005. Both reports stated that all costs claimed were unallowable. Terry Bradley, Ed.D., Superintendent, responded to the draft report (issued February 26, 2004) on March 19, 2004, disagreeing with the audit results.

For unallowable teacher salary costs, the district stated that it was not required to provide an additional science course in lieu of a non-science course. The district stated that (1) it realized no offsetting savings and (2) there is no authority that requires the district to provide reasons why offsetting savings could not be realized.

For unallowable material and supply costs, the district stated that there are no requirements for the district to identify or report offsetting savings of materials and supplies due to the reduction of non-science classes.

For unallowable contracted services costs, the district stated that there is no authority that requires advance certification.

On July 28, 2006, the COSM directed the SCO to reconsider our position in light of the Sacramento County Superior Court 2004 ruling in the San Diego Unified School District et al. v. COSM et al., Case No. 03CS01401. We contacted the district on October 12, 2006, to reevaluate the audit in light of the lawsuit. We reevaluated the claim based on information the district provided, using a quarter class load methodology that considered staffing needed to teach the additional year of science and costs funded by restricted resources. Consistent with the COSM interpretation of the court's decision, we did not consider offsetting savings without evidence of a direct relationship between the implementation of the mandate and reduction in non-science classes.

The district did not provide all of the documentation we needed for the reevaluation until the end of March 2007. At that time, the district requested that we issue this report as final to expedite the settlement of payment adjustments related to allowable costs. Therefore, we agreed to bypass issuing a revised draft report.

On April 16, 2007, Michael Johnston, Assistant Superintendent, Business Services, provided a written response for inclusion in this revised final report. The district did not respond to the validity of the recalculation. This revised final report includes the district's current response.

Restricted Use

This report is solely for the information and use of Clovis Unified School District, the Fresno County Office of Education, the California Department of Education, the 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

**Revised Schedule 1—
Summary of Program Costs
July 1, 1998, through June 30, 2002**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1998, through June 30, 1999</u>				
Salaries and benefits	\$ 554,076	\$ 805,135	\$ 251,059	Finding 1
Materials and supplies	70,450	13,128	(57,322)	Finding 2
Contracted services	<u>2,679,035</u>	<u>—</u>	<u>(2,679,035)</u>	Finding 3
Total direct costs	3,303,561	818,263	(2,485,298)	
Indirect costs	<u>42,530</u>	<u>55,478</u>	<u>12,948</u>	Findings 1, 2
Total direct and indirect costs	3,346,091	873,741	(2,472,350)	
Less late claim penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Total program costs	<u>\$ 3,345,091</u>	872,741	<u>\$(2,472,350)</u>	
Less amount paid by the State		<u>(3,345,091)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(2,472,350)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Salaries and benefits	\$ 1,482,352	\$ 916,328	\$ (566,024)	Finding 1
Materials and supplies	165,242	35,937	(129,305)	Finding 2
Contracted services	<u>698,206</u>	<u>—</u>	<u>(698,206)</u>	Finding 3
Total direct costs	2,345,800	952,265	(1,393,535)	
Indirect costs	<u>106,270</u>	<u>61,421</u>	<u>(44,849)</u>	
Total program costs	<u>\$ 2,452,070</u>	1,013,686	<u>\$(1,438,384)</u>	Findings 1, 2
Less amount paid by the State		<u>(202,717)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 810,969</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ 955,872	\$ 1,008,130	\$ 52,258	Finding 1
Materials and supplies	<u>87,190</u>	<u>10,128</u>	<u>(77,062)</u>	Finding 2
Total direct costs	1,043,062	1,018,258	(24,804)	
Indirect costs	<u>71,241</u>	<u>69,547</u>	<u>(1,694)</u>	Findings 1, 2
Total program costs	<u>\$ 1,114,303</u>	1,087,805	<u>\$(26,498)</u>	
Less amount paid by the State		<u>(1,114,303)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (26,498)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries and benefits	\$ 1,022,501	\$ 1,080,846	\$ 58,345	Finding 1
Materials and supplies	<u>47,189</u>	<u>12,761</u>	<u>(34,428)</u>	Finding 2
Total direct costs	1,069,690	1,093,607	23,917	
Indirect costs	<u>72,311</u>	<u>73,928</u>	<u>1,617</u>	Findings 1, 2
Total direct and indirect costs	1,142,001	1,167,535	25,534	
Less allowable costs that exceed claimed ²	<u>—</u>	<u>(25,534)</u>	<u>(25,534)</u>	
Total program costs	<u>\$ 1,142,001</u>	1,142,001	<u>\$ —</u>	
Less amount paid by the State		<u>(1,125,383)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 16,618</u>		

Revised Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>Summary: July 1, 1998, through June 30, 2002</u>				
Salaries and benefits	\$ 4,014,801	\$ 3,810,439	\$ (204,362)	
Materials and supplies	370,071	71,954	(298,117)	
Contracted services	3,377,241	—	(3,377,241)	
Total direct costs	7,762,113	3,882,393	(3,879,720)	
Indirect costs	292,352	260,374	(31,978)	
Total direct and indirect costs	8,054,465	4,142,767	(3,911,698)	
Less late claim penalty	(1,000)	(1,000)	—	
Less allowable costs that exceed claimed	—	(25,534)	(25,534)	
Total program costs	<u>\$ 8,053,465</u>	4,116,233	<u>\$(3,937,232)</u>	
Less amount paid by the State		<u>(5,787,494)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(1,671,261)</u>		

¹ See the Revised Findings and Recommendations section.

² *Government Code* Section 17561 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 fiscal year 2001-02 claims.

Findings and Recommendations

FINDING 1— Unallowable salary and benefit costs, and related indirect costs

In our prior audit report dated September 30, 2005, we stated that the district did not provide documentation substantiating the allowability of claimed salary and benefit costs totaling \$4,014,801 for the audit period. The related indirect costs were \$267,751.

Our prior report stated the following:

For FY 1998-99 and FY 1999-2000, the district claimed high school science teachers' salaries and benefits based on a formula that determined an incremental increase in the teachers as a result of the mandate. The district calculated the increase in the number of high school science teachers between the 1985-86 base year and claim years and reduced that amount by the percentage increase in high school enrollment for the same period. The district then multiplied that number by the claim year's average annual salaries and benefits of a high school science teacher.

The calculation made by the district for FY 1998-99 and FY 1999-2000 did not identify the courses taught in the base year for the one required high school science course or the courses taught in the claim years for the two required high school science courses. In addition, the calculation deducted the high school enrollment percentage from the percentage increase in the number of high school science teachers rather than deducting the portion of the percentage increase in science teachers that was related to enrollment growth. Consequently, the calculation did not measure the costs of teaching the additional high school biological or physical science courses in the claim years as a result of the mandate.

In addition, the district included salary and benefit costs of six non-physical/biological science teachers in FY 1998-99, and 22 middle school teachers and one non-physical/biological science teacher in FY 1999-2000. Only the increased salaries and benefits for teaching the additional high school biological or physical science courses in the claim years due to the mandate are reimbursable.

For FY 2000-01 and FY 2001-02, the district claimed high school science teachers' salaries and benefits based on a formula that determined the increase in high school courses as a result of the mandate. The district divided one-fourth of the total number of grade 9-12 pupils by the average science course size to arrive at the additional science courses required for the mandate. The district then divided the additional science courses by the number of daily courses taught per teacher to arrive at the increased science teachers required by the mandate. From that number, the district multiplied the increased science teachers by the claim years' average science teacher salaries and benefits. This methodology measured the teacher salaries and benefits related to the additional biological or physical science courses taught as a result of the mandate.

For the audit period, the district did not identify or report any offsetting savings of salaries and benefits due to the reduction of teachers in non-science courses as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings. Consequently, none of the claimed costs are reimbursable.

On July 28, 2006, the Commission on State Mandates (COSM) directed the SCO to reconsider our position in light of the Sacramento County Superior Court 2004 ruling in the San Diego Unified School District et al. v. COSM et al., Case No. 03CS01401. The COSM interpreted the court's decision that we could only consider offsetting savings that directly result from the implementation of the mandate program. The COSM believes that the SCO cannot consider any offsetting savings without evidence of a direct relationship between the implementation of the mandate and reduction in non-science classes.

The quarter class load method used by the district in the last two fiscal years measures the increased costs incurred for providing the additional science course. The district provided us with additional documentation using this method to support its claimed costs. We recalculated allowable costs for the audit period using the quarter class load method described above. We then reduced the total cost by the portion of all science teachers funded by restricted resources, which during the audit period was zero. Our recalculation for the audit period resulted in a reduction of the audit finding by \$4,066,050, from \$4,282,552 to \$216,502.

Parameters and Guidelines requires that, beginning with the 1986-87 school year, no pupil is to receive a high school diploma without completing an additional science course above that which was required prior to enactment of Chapter 498, Statutes of 1983. Previously, one science course was required. As a result of this mandate, two science courses, one each of biological and physical sciences, are now required. The costs incurred for providing the additional science course, net of savings a district experiences as a direct result, are subject to reimbursement under this mandate. Consequently, only net increased costs of the additional biological or physical science courses taught are reimbursable.

Parameters and Guidelines states that reimbursable costs consist of the increased costs to the school district for staffing and supplying the additional mandated science course. Furthermore, the guidelines state that reimbursement for this mandate received from any source (e.g., federal, state, and block grants) is to be identified and deducted.

The following table shows the audit adjustment resulting from the recalculation of salaries and benefits, and related indirect costs using the quarter class load method.

	Fiscal Year				Total
	1998-99	1999-2000	2000-01	2001-02	
Salaries and benefits	\$ 251,059	\$ (566,024)	\$ 52,258	\$ 58,345	\$ (204,362)
Indirect costs	16,856	(36,509)	3,569	3,944	(12,140)
Total adjustment	<u>\$ 267,915</u>	<u>\$ (602,533)</u>	<u>\$ 55,827</u>	<u>\$ 62,289</u>	<u>\$ (216,502)</u>

Recommendation

We recommend that the district continue to apply a consistent methodology that identifies the additional staffing costs needed to provide the second year of science net of offsetting revenues.

District's Response

The district stated that it “reviewed the draft revised audit findings and has discussed with the auditor the proposed Controller’s quarter load method of calculating allowable costs.” The district did not respond to the validity of the recalculation.

SCO's Comment

The fiscal impact of the audit finding remains unchanged.

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

In our prior audit report dated September 30, 2005, we stated that the district did not provide documentation substantiating the allowability of claimed materials and supplies costs totaling \$370,071 for the audit period. The related indirect costs were \$24,601. (See Finding 1 for a summary of *Parameters and Guidelines* requirements.)

Our prior report stated the following:

The district claimed materials and supplies for FY 1998-99 and FY 1999-2000 using a methodology similar to the one used to allocate teacher costs for the same years (see Finding 1). The district did not identify the cost of courses taught in the base year for the one required science course, or the cost of high school courses taught in the claim years for the two required science courses. Furthermore, the district applied the percentage increase in high school science teachers between the 1985-86 base year and the claim years to the claim year number, rather than to the FY 1985-86 base-year number. Consequently, the calculation did not measure the costs of additional high school science courses taught in the claim years as a result of the mandate.

For FY 2000-01 and FY 2001-02, the district applied 50% of all high school science materials and supplies to the mandate. The district did not provide any documents to substantiate the claimed percentages.

For the audit period, the district did not identify or report any offsetting savings of materials and supplies due to the reduction of non-science courses as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings.

In addition, the district did not support claimed materials and supplies, totaling \$128,321 . . . and claimed non-science textbooks, non-science materials, and duplicated costs, totaling \$38,544. . . .

The district also did not report \$178,517 in reimbursements from other programs that related to costs claimed. . . . These reimbursements related to the following programs: School Facility Program, Science Laboratory Material Funds, Special Education, Title VI, and Gifted and Talented.

As noted in Finding 1, the COSM directed the SCO to reconsider our position in light of the Sacramento County Superior Court 2004 ruling in the San Diego Unified School District et al. v. COSM et al., Case No. 03CS01401.

We recalculated allowable costs for the audit period using the quarter class load method. This method is similar to our teachers cost

calculation. This method converts teacher staffing to number of classes taught. The increased classes are then multiplied by the average allocation for materials and supplies given to all science classes, net of science material and supply costs funded by restricted resources. The district only provided science material and supply costs funded with unrestricted resources. Consequently, our recalculation was based on costs funded with unrestricted resources. Our recalculation resulted in a reduction of the audit finding by \$76,717, from \$394,672 to \$317,955.

The following table shows the audit adjustment resulting from the recalculation of materials and supplies costs, and related indirect costs using the quarter class load method.

	Fiscal Year				Total
	1998-99	1999-2000	2000-01	2001-02	
Materials and supplies	\$ (57,322)	\$(129,305)	\$ (77,062)	\$ (34,428)	\$(298,117)
Indirect costs	(3,908)	(8,340)	(5,263)	(2,327)	(19,838)
Total adjustment	<u>\$ (61,230)</u>	<u>\$(137,645)</u>	<u>\$ (82,325)</u>	<u>\$ (36,755)</u>	<u>\$(317,955)</u>

Recommendation

We recommend that the district continue to apply a consistent methodology that identifies the additional supply costs needed to provide the second year of science net of offsetting revenues.

District’s Response

The district did not respond to the validity of the recalculation.

SCO’s Comment

The fiscal impact of the audit finding remains unchanged.

**FINDING 3—
Unallowable contracted services**

For FY 1998-99 and FY 1999-2000, the district claimed contracted service costs for construction projects for four high schools: Clovis, Clovis West, Clovis East, and the Center for Advanced Research and Technology. The district did not provide documentation to substantiate the allowability of costs claimed, totaling \$3,377,241 for FY 1998-99 and FY 1999-2000.

Parameters and Guidelines states that the acquisition of additional space for conducting new science courses is reimbursable only to the extent that districts can document that this space would not have been otherwise acquired due to increases in the number of students enrolling in high school, and that it was not feasible, or would be more expensive, to acquire space by remodeling existing facilities.

Parameters and Guidelines also states that the district must provide certification by the board that an analysis of all appropriate science facilities within the district was conducted, and a determination made that no such facilities existed to reasonably accommodate increased enrollment for the additional science courses required by the enactment of *Education Code* Section 51225.3.

The district did not provide the auditors with a board certification, approved in advance of the FY 1998-99 and FY 1999-2000 construction projects, stating that the construction was carefully thought out and an analysis had been conducted of all appropriate science facilities within the district prior to the construction. On January 8, 2003, the district’s board met and certified that, because of the mandate, the existing science facilities for FY 1998-99, FY 1999-2000, and FY 2000-01 failed to accommodate the current needs of the district, and, therefore, the district approved new construction, remodeling, equipment purchases, and/or temporary student classroom lease proposals. The district board members approved the certification approximately three to four years after construction; therefore, it did not meet the requirements of the mandate.

In addition, *Parameters and Guidelines* states that reimbursement for this mandate received from any source, including, but not limited to, service fees collected, federal funds, and other state funds, is to be identified and deducted from this claim.

The audit revealed that approximately 50% of the construction costs claimed were funded by School Facility Program funds.

Total claimed contract services are unallowable, as follows:

	Fiscal Year		Total
	1998-99	1999-2000	
Contract services	<u>\$(2,679,035)</u>	<u>\$(698,206)</u>	<u>\$(3,377,241)</u>

The district had filed similar claims for FY 1984-85 through FY 1997-98. The SCO had rejected the contracted services costs on these claims because the district had failed to submit necessary documentation to satisfy the criteria of board certification for the costs of leasing portable classrooms. On October 4, 1995, followed by an amendment on August 3, 2000, the district filed an IRC for FY 1984-85 through FY 1997-98. The district argued that the SCO incorrectly reduced the district’s contracted service costs.

In response, the SCO advised the Commission on State Mandates that the district failed to submit board certification, as required by *Parameters and Guidelines*. The SCO further advised that the board certification was not merely a formality but a demonstration that the construction or remodeling for which reimbursement is sought was carefully thought out and that no reasonable alternatives existed.

On January 24, 2002, the commission denied the district’s IRC. The Sacramento County Superior Court upheld the COSM decision in its 2004 ruling in the San Diego Unified School District et al. v. Commission on State Mandates et al., Case No. 03CS01401.

Recommendation

We recommend that the district develop and implement procedures to ensure that all claimed costs are allowable and reimbursements received from any other sources are identified and deducted from claimed costs.

District's Response

The revised audit findings do not change the amount of the adjustments made by the original audit. Therefore, the district position has not changed. The board certification process was the subject of the court case [sic] decided in 2004 and the district will comply with the court decision. The application of other funding sources for construction was not the subject of the court decision and the district maintains its position that the local funds are not a full or partial reduction of the total facility costs.

SCO's Comment

The finding and recommendation remain unchanged.

As noted in its response, the district will comply with the court decision, which supported the unallowable costs related to the required governing board certificate.

In terms of the use of categorical revenues for construction costs, *Parameters and Guidelines*, Section VI, states that reimbursement for this mandate from any source, e.g., federal, state, block grants, etc., shall be deducted from claimed costs.

OTHER ISSUE

In responding to the preliminary findings, the district disagrees with the SCO's position that claimed science teacher costs funded with categorical funds are to be deducted as offsetting revenues. During the audit period, categorical funds were not used to fund science teacher costs. Consequently, this argument does not affect the audit findings.

District's Response

Although we do not fund science teachers with categorical funds, we disagree with the concept that teachers and supplies funded in this manner be viewed as offsetting revenue when the increased service utilizes existing District resources. If districts are required to provide the mandate, the expenses as coded in a district budget should not be a factor. Regardless of the source of funding redirected to cover the cost of providing the new mandated service, the new service remains an additional, unfunded expense until it is reimbursed with new state funds. The Controller's offset of the other funding sources as a reduction of claimed cost is not consistent with school accounting guidelines established by state agencies and audited by independent auditors according to the audit guidelines written by the Controller and other state agencies, nor are the offsets required by the parameters and guidelines for this mandate program.

SCO's Comment

The finding and recommendation remain unchanged.

In its response, the district takes exception with the identification of categorical revenues as an offset. The district states that offsets are not required per the *Parameters and Guidelines* and other accounting guidelines. On the contrary, *Parameters and Guidelines*, Section VI, states that reimbursement for this mandate from any source, e.g., federal, state, block grants, etc., shall be deducted from claimed costs.

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



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Associate Superintendent

April 16, 2007

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

Dear Mr. Spano:

This letter is Clovis Unified School District's response to the revised Graduation Requirements findings and recommendations received by email April 4, 2007, for the period of July 1, 1998 through June 30, 2002.

District's Response

The District has reviewed the draft findings of your proposed revised audit report. Both findings state in the first sentence that "The district filed additional documentation using the quarter class method..." This is not correct. The District provided documentation in response to your revised audit documentation request, but did not "file" any revised or amended annual reimbursement claims.

District's Response Finding 1 – Unallowable teacher supply costs.

The District has reviewed the draft revised audit findings and has discussed with the auditors the proposed Controller's quarter load method of calculating allowable costs. Although we do not fund science teachers with categorical funds, we disagree with the concept that teachers and supplies funded in this manner be viewed as offsetting revenue when the increased service utilizes existing District resources. If districts are required to provide the mandate, the expenses as coded in a district budget should not be a factor. Regardless of the source of funding redirected to cover the cost of providing the new mandated service, the new service remains an additional, unfunded expense until it is reimbursed with new state funds. The Controller's offset of the other funding sources as a reduction of claimed cost is not consistent with school accounting guidelines established by state agencies and audited by independent auditors according to the audit guidelines written by the Controller and other state agencies, nor are the offsets required by the parameters and guidelines for this mandate program.



District's Response Finding 2 – Unallowable contracted services costs.

The revised audit findings do not change the amount of the adjustments made by the original audit. Therefore, the district position has not changed. The board certification process was the subject of the court case decided in 2004 and the district will comply with the court decision. The application of other funding sources for construction was not the subject of the court decision and the district maintains its position that local funds are not a full or partial reduction of the total facility costs.

Per conversations with Chris Ryan in the Compliance Bureau, Division of Audits, we understand the revised report will supersede the prior revised final report, and in order to expedite the process these comments will be incorporated into the final report.

Sincerely,



Michael Johnston
Assistant Superintendent
Business Services

MJ/tg

cc: Terry Bradley, Ed.D., Superintendent
Bill McGuire, Associate Superintendent-Administrative Services
Keith Petersen, Six Ten & Associates
Chris Ryan, State Controllers Office

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