

LOS ANGELES UNIFIED SCHOOL DISTRICT

Audit Report

HABITUAL TRUANT PROGRAM

Chapter 1184, Statutes of 1975,
and Chapter 1023, Statutes of 1994

July 1, 1999, through June 30, 2001



STEVE WESTLY
California State Controller

June 2003



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California State Controller

June 30, 2003

Roy Romer, Superintendent
Los Angeles Unified School District
333 South Beaudry Avenue, 24th Floor
Los Angeles, CA 90017

Dear Mr. Romer:

The State Controller's Office (SCO) has completed an audit of the claims filed by the Los Angeles Unified School District for costs of the legislatively mandated Habitual Truant Program (Chapter 1184, Statutes of 1975, and Chapter 1023, Statutes of 1994) for the period of July 1, 1999, through June 30, 2001.

The district claimed \$2,262,604 for the mandated program. Our audit disclosed that \$586,228 is allowable and \$1,676,376 is unallowable. The unallowable costs occurred because the district did not provide documentation to support the total labor hours claimed and did not apply offsetting revenues received from federal and state programs. The district was paid \$1,433,135. The amount paid in excess of allowable costs claimed totals \$846,907.

The SCO has established an informal audit review process to resolve a dispute of facts. The auditee should submit, in writing, a request for a review and all information pertinent to the disputed issues within 60 days after receiving the final report. The request and supporting documentation should be submitted to: Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001.

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

Sincerely,

Original signed by

WALTER BARNES
Chief Deputy State Controller, Finance

WB:kmm/ams

cc: (see page 2)

cc: Joseph Zeronian, Ed.D.
Chief Financial Officer
Los Angeles Unified School District
Yoshiko Fong, Controller
Los Angeles Unified School District
Darline P. Robles, Ph.D.
County Superintendent of Schools
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Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Views of Responsible Official	2
Restricted Use	3
Findings and Recommendations	4
Schedule 1—Summary of Program Costs	10
Attachment—Auditee’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by the Los Angeles Unified School District for costs of the legislatively mandated Habitual Truant Program (Chapter 1184, Statutes of 1975, and Chapter 1023, Statutes of 1994) for the period of July 1, 1999, through June 30, 2001. The last day of fieldwork was January 27, 2003.

The district claimed \$2,262,604 for the mandated program. The audit disclosed that \$586,228 is allowable and \$1,676,376 is unallowable. The unallowable costs occurred because the district did not provide documentation to support total labor hours claimed and did not apply offsetting revenues received from federal and state programs. The district was paid \$1,433,135. The amount paid in excess of allowable costs claimed totals \$846,907.

Background

Chapter 1184, Statutes of 1975, defines "habitual truant" and states that no pupil shall be deemed as a habitual truant unless school districts make a "conscientious effort" to hold at least one conference with the pupil's parent or guardian and the pupil. Chapter 1023, Statutes of 1994, requires school districts to classify a pupil as a habitual truant as defined in *Education Code* Section 48262 upon the pupil's fourth truancy within the same school year.

Parameters and Guidelines, adopted by the Commission on State Mandates, establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

The objective of the audit was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Habitual Truant Program (Chapter 1184, Statutes of 1975, and Chapter 1023, Statutes of 1994) for the period of July 1, 1999, through June 30, 2001.

The auditors performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;

- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's management controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

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

For the audit period, the district claimed \$2,262,604 for costs of the legislatively mandated Habitual Truant Program. The audit disclosed that \$586,228 is allowable and \$1,676,376 is unallowable.

For fiscal year (FY) 1999-2000, the district was paid \$1,067,515 by the State. The audit disclosed that \$130,768 is allowable. The amount paid in excess of allowable costs claimed, totaling \$936,747, should be returned to the State.

For FY 2000-01, the district was paid \$365,620 by the State. The audit disclosed that \$455,460 is allowable. Allowable costs in excess of the amount paid, totaling \$89,840, will be paid by the State based on available appropriations.

Views of Responsible Official

The SCO issued a draft audit report on March 21, 2003. Joseph Zeronian, Chief Financial Officer, responded by letter dated April 29, 2003, disagreeing with the audit results. The district's response and the SCO's comments are included in this final audit report. Through a subsequent telephone conversation with Aurora Costales, Principal Accountant, on June 27, 2003, the district concurred with the revised methodology for calculating offsetting revenues described in the SCO's comments to Finding 2.

Restricted Use

This report is solely for the information and use of the Los Angeles 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

Findings and Recommendations

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

The district did not provide adequate documentation to substantiate a significant portion of claimed salaries and benefits totaling \$1,235,630 for the period of July 1, 1999, through June 30, 2001. The related indirect cost is \$56,938.

The salaries and benefits claimed consist of the following components:

- Verifying prior truanancies by reviewing the district records to verify that a pupil has been reported as a truant at least four times during the same school year.
- Making a conscientious effort to schedule a parent conference by (1) sending notice (by certified mail, if necessary) to the pupil's parent or guardian inviting the parent or guardian and the pupil to attend a conference with an appropriate school district employee; and (2) making a final effort to schedule a conference by placing a telephone call to the parent/guardian, and by placing return calls to the parent/guardian.
- Scheduling and holding a conference if a conscientious effort results in the parent's or guardian's agreement to confer.
- Reclassifying a pupil as a habitual truant after the school district has made a conscientious effort to schedule a conference (whether or not this effort resulted in a conference).

For FY 1999-2000, the district claimed salaries and benefits for 77 Pupil Services and Attendance (PSA) Counselors. To support its costs, the district provided PSA Counselors' logs, which recorded only the number of cases reviewed. The logs did not contain any information related directly to hours spent for the Habitual Truant Program. Consequently, these logs were not reconcilable to claimed labor hours. The claim was based on information recorded for one month and projected to the number of conferences for the entire year. Time claimed for verifying and scheduling conferences was based on declarations by 3 of the 77 PSA Counselors.

For FY 2000-01, the district claimed salaries and benefits for 252 PSA Counselors. The district applied 6.3% of the PSA Counselor costs to the mandate based on a time study performed for the eight-month period of November 2000 through June 2001.

The auditors analyzed the time study and determined that the amount of time spent by the PSA Counselors on mandate-related activities averaged 3.82% rather than the 6.3% claimed, as follows:

Verifying truancy	1.32%
Preparing truancy letter	0.60%
Parent conference	1.70%
Reclassifying truancy	<u>0.20%</u>
Total	<u>3.82%</u>

Of the 252 PSA Counselors, 103 participated in the time study. The district did not provide any support for the validity of the sampling methodology. Of the 103 who participated in the time study, 12 recorded no Habitual Truant activities performed during the eight-month period. Various errors were made in developing the time study. Some of the errors are as follows:

- Activity logs provided did not identify how many hours a PSA Counselor worked in each day. PSA Counselors only recorded time spent on mandate-related activities. Other activities performed did not contain time increments; only check marks were recorded.
- In six instances, claimed hours exceeded a normal workday of 8 hours. For example, a PSA Counselor recorded 19 hours on February 12, 2001. However, interviews with PSA Counselors revealed that their workday seldom exceeded 8 hours. In addition, the district did not provide documentation to support the additional hours and additional compensation for these counselors.
- In 19 instances, PSA Counselors recorded work hours on weekends, holidays, and invalid dates. For these hours claimed, the district did not provide records to substantiate that the counselors were compensated for those hours.
- In two instances, identical time logs were submitted with different dates. A PSA Counselor recorded identical student names on February 6 and 16, 2001, and February 22 and 23, 2001.
- In two instances, the number of hours recorded by a PSA Counselor in the time logs was changed (e.g., a PSA Counselor submitted three time logs), yet all time logs submitted were included in the total hours claimed.
- A duplicate log was submitted for the same PSA Counselor.
- In five instances, hours spent by a PSA Counselor were projected to other schools for which the PSA Counselor was assigned.
- In 12 instances, hours were claimed by PSA Counselors who did not spend time for mandate-related activities.

The prior SCO audit covered the district's Habitual Truant Program for FY 1997-98 and FY 1998-99. In May 2001, the SCO issued a draft report, disclosing that the entire amount claimed was unallowable due to inadequate documentation. The district submitted a time study for the period of November 2000 through April 2001 to establish a reasonable percentage of time applicable to the mandate. The results of this time study were retroactively applied to the claims for FY 1997-98 and FY 1998-99. Based on the time study submitted, 6.3% of the PSA Counselors' time was applied to mandate activities. A final report incorporating the 6.3% rate was issued on September 28, 2001.

In the current SCO audit, the auditors reviewed a time study submitted for the period of November 2000 through June 2001. The time study extended a previously submitted six-month study by two months. Based on a detailed review of that time study, the percentage of PSA Counselor costs that related to the mandate was reduced by 2.48%, from 6.3% to 3.82%.

A summary of the unallowable costs is as follows:

	Fiscal Year		Total
	1999-2000	2000-01	
Salaries and benefits	\$ (812,520)	\$ (423,110)	\$(1,235,630)
Indirect costs	(39,082)	(17,856)	(56,938)
Total costs	<u>\$ (851,602)</u>	<u>\$ (440,966)</u>	<u>\$(1,292,568)</u>

Parameters and Guidelines, Section IV, states that “Actual costs for one fiscal year should be included in each claim.”

Parameters and Guidelines, Section VIB1, states that the claimant should “Identify the employee(s) and their job classification, describe the mandated functions performed, and specify the actual number of hours devoted to each function. . . . The average number of hours devoted to each function may be claimed if supported by a documented time study.”

Parameters and Guidelines, Section VII, states that “For audit purpose, all supporting documents must be retained for a period of two years after the end of the calendar year in which the reimbursement claim was filed or last amended, whichever is later.”

Recommendation

The district should develop and implement an adequate accounting and reporting system to ensure that all claimed costs are properly supported. The district should also monitor the claim preparation process to ensure that costs claimed represent actual costs.

Auditee’s Response

For fiscal years 1997-98 and 1998-99, the District submitted a time study for the eight-month period of November 2000 through June 2001 to SCO. Results from the time study indicated that counselors spent an average of 5% to 7% of their contracted hours to Habitual Truant and dated activities.” SCO accepted the results of this time study at 6.3% and applied this rate retroactively to the 1997-98 and 1998-99 audits.

For Fiscal years 1999-00 and 2000-01, SCO refused to honor the 6.3% where in fact the time study was performed during fiscal year 2000-01. The District disagrees with the State in reducing the rate from 6.3% to 3.2%.

SCO's Comments

The finding and recommendation remain unchanged. The district did not submit any additional documentation to support unallowable costs. In addition, the district did not dispute the errors identified in the finding.

Contrary to the district's response, the original time study submitted for FY 1997-98 and FY 1998-99 was for a six-month period, not an eight-month period. The district submitted the original time study in response to the draft audit report for these two fiscal years. The auditors reviewed district-prepared summary sheets for the original time study to determine whether summary sheet data agreed with supporting time logs. Based on a review of summary sheet data, the auditors allowed salary costs claimed for FY 1997-98 and FY 1998-99 based on rates ranging from 5% to 7% of time spent on mandate activities.

For the current audit period, the district submitted a revised time study that added two additional months and 31 additional PSA Counselors to the time study results. However, the district continued to claim salaries based on the initial time study results. The auditors reviewed detailed activity logs for all PSA Counselors included in the revised time study. The review disclosed errors in the time study. The time study supported an allowable rate of 3.82% of time spent on mandate activities.

As a result of the change in the allowable rate of time spent on mandated activities (from 6.2% to 3.82%), allowable costs reported in the prior audit report for FY 1997-98 and FY 1998-99 were overstated. However, because prior audit findings were withdrawn as a result of Chapter 1128, Statutes of 2002 (Assembly Bill 2834), no further action is necessary.

**FINDING 2—
Unreported
offsetting revenue**

The district did not offset claimed costs by state funds (desegregation, School Facility Program (SFP)) and federal funds (Title 1 and Medi-Cal Administrative) received and expended for the Habitual Truant Program. As a result, the district understated the amount of offsetting revenue in its claim by \$383,808 (\$85,145 for FY 1999-2000, and \$298,663 for FY 2000-01).

The auditors reviewed the funding sources of all of the claimed PSA Counselors' salaries and benefits. For FY 2000-01, the review of the claimed PSA Counselors' salaries and benefits revealed that approximately 41.1% of their salaries and benefits were funded by the above-mentioned funds. The funding sources of all of the claimed PSA Counselors' salaries and benefits were not available for FY 1999-2000. Consequently, the results from FY 2000-01 were applied to FY 1999-2000.

The district stated that the total salaries and benefits costs of PSA Counselors for FY 2000-01 were about \$19 million and that \$7 million (36%) was not funded by any other sources. The district further stated that approximately \$1.2 million of PSA Counselors' salaries and benefits of the unfunded \$7 million is claimed for reimbursement under the mandate. Thus, the entire claimed costs should not be subject to dispute by the SCO.

The auditors requested the district to provide documents that would substantiate that the mandate-related costs were not funded by these restricted funds. The district was unable to provide such information.

The district was not able to provide the PSA Counselors' summary expenditures for FY 1999-2000. However, the district stated that funding sources and amounts for PSA Counselors for both fiscal years were similar and that results obtained from FY 2000-01 could be applied to FY 1999-2000.

A summary of the adjustments is as follows:

	<u>Fiscal Year</u>		<u>Total</u>
	<u>1999-2000</u>	<u>2000-01</u>	
Offsetting revenue	<u>\$ (85,145)</u>	<u>\$ (298,663)</u>	<u>\$ (383,808)</u>

Parameters and Guidelines, Section VIII, states that "Any offsetting the claimant experiences as a direct result of this mandate must 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 this claim."

Recommendation

The district should develop and implement an adequate accounting and reporting system to ensure that all offsetting savings and other reimbursements are properly reported.

Auditee's Response

There is nothing in the parameter and guidelines, or prior audit reports that indicate percentage of offsetting revenue. The parameter and guidelines say, "Any offsetting savings the claimant experienced as a direct result of this mandate must 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."

The District prepared a computation showing the total amount of restricted and non-restricted funds paid to all PSA counselors included in the claim. The computation showed that the total amount of salaries paid to PSA counselors using non-restricted funds far exceeded the amount of the claim. Therefore, the District has no offsetting funds to deduct from the claim. The District disagrees with the pro-rating revenue techniques being implemented by SCO on the basis that any salaries or other expenses funded by other revenues were already excluded from the claimed amounts. Furthermore, there was no mention of this technique in the parameters and guidelines, nor in any prior audit.

SCO's Comments

The finding and recommendation have been updated based on a review of the initial finding and subsequent discussions with the district.

Offsetting revenues were initially calculated on salaries and benefits rather than salaries, benefits, and indirect costs. The finding has been revised for this computational error. The revised computation was discussed with the district on May 15, 2003.

In addition, offsetting revenues were initially calculated on a pro rata basis; whereas, the percentage of costs of an individual who was paid with restricted funds was applied to the individual's time charged to the mandate. Based on a follow-up discussion with the district, offsetting revenues were recalculated to only deduct that portion of an individual's time charged to the mandate that exceeded the amount funded with its General Fund. The district agreed with this revised methodology on June 27, 2003. Consequently, offsetting revenues have been reduced by \$229,740, from \$613,548 to \$383,808.

Offsetting revenues were not reviewed by the SCO in the prior audit. Nevertheless, the district is only allowed to claim and be reimbursed for actual costs net of offsetting revenues. Therefore, a review of offsetting revenues in the current audit is appropriate.

**Schedule 1—
Summary of Program Costs
July 1, 1999, through June 30, 2001**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
Salaries and benefits	\$1,018,524	\$ 206,004	\$ (812,520)	Finding 1
Indirect costs	48,991	9,909	(39,082)	
Subtotals	1,067,515	215,913	(851,602)	
Less offsetting savings/reimbursements	—	(85,145)	(85,145)	Finding 2
Total costs	<u>\$1,067,515</u>	130,768	<u>\$ (936,747)</u>	
Less amount paid by the State		<u>(1,067,515)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (936,747)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$1,146,698	\$ 723,588	\$ (423,110)	Finding 1
Indirect costs	48,391	30,535	(17,856)	
Subtotals	1,195,089	754,123	(440,966)	
Less offsetting savings/reimbursements	—	(298,663)	(298,663)	Finding 2
Total costs	<u>\$1,195,089</u>	455,460	<u>\$ (739,629)</u>	
Less amount paid by the State		<u>(365,620)</u>		
Allowable costs claimed in excess (less than) amount paid		<u>\$ 89,840</u>		
<u>Summary: July 1, 1999, through June 30, 2001</u>				
Salaries and benefits	\$2,165,222	\$ 929,592	\$ (1,235,630)	Finding 1
Indirect costs	97,382	40,444	(56,938)	
Subtotals	2,262,604	970,036	(1,292,568)	
Less offsetting savings/reimbursements	—	(383,808)	(383,808)	Finding 2
Total costs	<u>\$2,262,604</u>	586,228	<u>\$ (1,676,376)</u>	
Less amount paid by the State		<u>(1,433,135)</u>		
Allowable costs claimed in excess (less than) amount paid		<u>\$ (846,907)</u>		

¹ See the Findings and Recommendations section.

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

**State Controller's Office
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