

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

Audit Report

INTRADISTRICT ATTENDANCE PROGRAM

Chapters 161 and 915, Statutes of 1993

July 1, 2000, through June 30, 2002



STEVE WESTLY
California State Controller

June 2004



STEVE WESTLY
California State Controller

June 11, 2004

Arlene Ackerman, Ed.D., Superintendent
San Francisco Unified School District
555 Franklin Street, Room 301
San Francisco, CA 94102

Dear Dr. Ackerman:

The State Controller's Office (SCO) has completed an audit of the claims filed by San Francisco Unified School District for costs of the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 2000, through June 30, 2002.

The district claimed \$1,179,666 for the mandated program. Our audit disclosed that \$275,831 is allowable and \$903,835 is unallowable. The unallowable costs occurred because the district claimed costs that were not supported with adequate documentation or were not related to the mandate, and did not reduce claimed costs by offsetting reimbursements. The district was paid \$799,037. The amount paid in excess of allowable costs claimed, totaling \$523,206, should be returned to the State.

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. In addition, please provide a copy of the request letter to Jim L. Spano, Chief, Compliance Audits Bureau, State Controller's Office, Division of Audits, Post Office Box 942850, Sacramento, California 94250-5874.

If you have any questions, please contact Mr. Spano at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:kmm/ams

cc: (see page 2)

cc: Dr. George Kozitza
Chief Business Officer
Mary Downey
Director of Budget Services
John N. Conshafter
Compliance Audit Manager
Scott Hannan, Director
School Fiscal Services Division
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Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by the San Francisco Unified School District for costs of the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 2000, through June 30, 2002. The last day of fieldwork was February 3, 2004.

The district claimed \$1,179,666 for the mandated program. The audit disclosed that \$275,831 is allowable and \$903,835 is unallowable. The unallowable costs occurred because the district claimed costs that were not supported with adequate documentation or were not related to the mandate, and did not reduce claimed costs by offsetting reimbursements. The district was paid \$799,037. The amount paid in excess of allowable costs claimed, totaling \$523,206, should be returned to the State.

Background

Chapter 161, Statutes of 1993, requires the governing board of each school district, on or before July 1, 1994, to prepare and adopt rules establishing and implementing a policy of open enrollment within the district for residents of the district, which provides that:

1. The parent or guardian of each school age child who is a resident in the district may select the schools the child shall attend;
2. Once the intradistrict transfer is selected, the district will evaluate the transfer to ascertain the impact of the transfer upon the maintenance of appropriate racial and ethnic balances among the respective schools;
3. Intradistrict attendance in excess of school site attendance area capacity shall be determined by a random, unbiased process that prohibits an evaluation of whether any pupil should be enrolled based upon his or her academic or athletic performance; and
4. No pupil who currently resides in the attendance area of a school shall be displaced by pupils transferring from outside the attendance area.

Chapter 915, Statutes of 1993, specifies that: (1) the intradistrict attendance program does not apply to school districts of only one school or school sites serving different grade levels; and (2) the school district is required to determine the capacity of the schools within the jurisdiction of the district.

On January 19, 1995, the Commission on State Mandates (COSM) ruled that Chapters 161 and 915, Statutes of 1993, imposed a state mandate upon school districts reimbursable under *Government Code* Section 17561.

Parameters and Guidelines, adopted by COSM on May 24, 1995, 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

Objective, Scope, and Methodology

assist school districts and local agencies in claiming reimbursable costs. The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Intradistrict Attendance Program (Chapters 161 and 915, Statutes of 1993) for the period of July 1, 2000, through June 30, 2002.

The auditor 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, and under the authority provided for under *Government Code* Section 17558.5. 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 internal 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 accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, San Francisco Unified School District claimed \$1,179,666 for costs of the legislatively mandated Intradistrict Attendance Program. The audit disclosed that \$275,831 is allowable and \$903,835 is unallowable.

For fiscal year (FY) 2000-01, the district was paid \$402,757 by the State. The audit disclosed that \$65,218 is allowable. The amount paid in excess of allowable costs claimed, totaling \$337,539, should be returned to the State.

For FY 2001-02, the district was paid \$396,280 by the State. The audit disclosed that \$210,613 is allowable. The amount paid in excess of allowable costs claimed, totaling \$185,667, should be returned to the

**Views of
Responsible
Official**

State.

The SCO issued a draft audit report on March 26, 2004. Dr. George A. Kozitza, Chief Business Officer, responded by the attached letter dated April 28, 2004, agreeing with the audit results with the exception of Finding 1. The district's response is included in this final audit report.

Restricted Use

This report is solely for the information and use of San Francisco Unified School District, the San Francisco 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

**Schedule 1—
Summary of Program Costs
July 1, 2000, through June 30, 2002**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
July 1, 2000, through June 30, 2001				
Salaries and benefits	\$ 707,331	\$ 130,748	\$ (576,583)	Finding 1
Materials and supplies	6,330	310	(6,020)	Finding 2
Contracted services	—	—	—	
Subtotals	713,661	131,058	(582,603)	
Indirect costs	69,725	12,804	(56,921)	Findings 1, 2
Subtotals	783,386	143,862	(639,524)	
Less offsetting savings/reimbursements	—	(78,644)	(78,644)	Finding 3
Total costs	<u>\$ 783,386</u>	65,218	<u>\$ (718,168)</u>	
Less amount paid by the State		(402,757)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (337,539)</u>		
July 1, 2001, through June 30, 2002				
Salaries and benefits	\$ 368,250	\$ 316,266	\$ (51,984)	Finding 1
Materials and supplies	—	—	—	
Contracted services	80	80	—	
Subtotals	368,330	316,346	(51,984)	
Indirect costs	27,950	24,005	(3,945)	Finding 1
Subtotals	396,280	340,351	(55,929)	
Less offsetting savings/reimbursements	—	(129,738)	(129,738)	Finding 3
Total costs	<u>\$ 396,280</u>	210,613	<u>\$ (185,667)</u>	
Less amount paid by the State		(396,280)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (185,667)</u>		
Summary: July 1, 2000, through June 30, 2002				
Salaries and benefits	\$ 1,075,581	\$ 447,014	\$ (628,567)	Finding 1
Materials and supplies	6,330	310	(6,020)	Finding 2
Contracted services	80	80	—	
Subtotals	1,081,991	447,404	(634,587)	
Indirect costs	97,675	36,809	(60,866)	Findings 1, 2
Subtotals	1,179,666	484,213	(695,453)	
Less offsetting savings/reimbursements	—	(208,382)	(208,382)	Finding 3
Total costs	<u>\$ 1,179,666</u>	275,831	<u>\$ (903,835)</u>	
Less amount paid by the State		(799,037)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (523,206)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries and benefits

The district claimed unallowable salaries and benefits totaling \$628,567 for the audit period. Related indirect costs, based on indirect cost rates claimed of 9.77% for FY 2000-01 and 7.59% for FY 2001-02, totaled \$60,278. Unallowable costs claimed were not adequately supported by source documentation, not reimbursable under the intradistrict attendance mandate program, or not related to the mandate program. Unallowable costs for each fiscal year are summarized as follows.

Fiscal Year 2000-01

The district claimed unallowable salaries and benefits totaling \$576,583 for FY 2000-01. Unallowable costs included \$152,699 for Education Placement Center (EPC) staff and \$423,884 for district school site staff.

The district did not maintain adequate source documentation for FY 2000-01 EPC staff costs claimed. Instead, the district calculated claimed costs of \$250,192 based on actual time logs maintained for August 2001 through October 2001, and annualized these hours to arrive at FY 2000-01 claimed costs. The SCO auditor determined that time logs for August 2001 through October 2001 were not representative of the fiscal year. Instead, the SCO auditor calculated allowable hours based on actual time logs for the 12-month period of August 2001 through July 2002. In addition, the SCO auditor prorated allowable hours for FY 2000-01 based on the number of intradistrict transfer requests in FY 2000-01 and FY 2001-02. The district reported 11,036 transfer requests in FY 2000-01 and 23,226 transfer requests in FY 2001-02. Therefore, the SCO auditor allowed 47.52% ($11,036 \div 23,226$) of EPC staff hours supported for the period of August 2001 through July 2002, to be projected to FY 2000-01. Based on EPC staff hourly rates during FY 2000-01, the projected hours support allowable costs of only \$97,493, resulting in unallowable costs of \$152,699.

The district claimed \$423,884 in unallowable costs for district school site staff. These costs are unallowable for the following reasons:

1. The district claimed \$87,185 for school site staff to enroll and disenroll students based on intradistrict transfer requests. This activity occurs after the district has approved the intradistrict transfer and is not a reimbursable activity under the mandate program.
2. The district claimed \$2,108 in costs that were not related to the intradistrict attendance mandated program. These costs were applicable to the interdistrict attendance program and the emergency procedures, earthquake procedures, and disasters program.

3. Various employee hours claimed did not agree with supporting documentation, resulting in unallowable costs of \$1,301.
4. Hourly rates claimed for five employees were not supported by source documentation. Annual contract hours used to calculate hourly rates differed from contract hours supported by source documentation, resulting in unallowable costs of \$1,578.
5. The remaining unallowable costs of \$331,712 were not supported by adequate source documentation. Costs claimed were based on average times per activity, declarations of time spent annually, or allocations of hours worked to the mandate program. In addition, employees reporting an average time per activity reported differing average times for the same activity. The district did not provide adequate documentation to support the average activity times, annual hour declarations, or percentages allocated to the mandate program.

Fiscal Year 2001-02

The district claimed unallowable salaries and benefits totaling \$51,984 for FY 2001-02. Unallowable costs included \$42,501 for EPC staff and \$9,483 for district school site staff.

Hourly rates claimed for various EPC employees were not supported by source documentation. Annual contract hours used to calculate hourly rates differed from contract hours supported by source documentation. In addition, fringe benefit costs included in the hourly rate calculations were not fully supported by the district's FY 2001-02 benefits schedule. Audit adjustments to contract hours and fringe benefit costs resulted in unallowable costs totaling \$42,501.

The district claimed \$9,483 in unallowable costs for district school site staff. These costs are unallowable for the following reasons:

1. Unallowable costs of \$4,767 were not supported by adequate source documentation. Costs claimed were based on average times per activity or declarations of time spent annually. In addition, employees reporting an average time per activity reported differing average times for the same activity. The district did not provide adequate documentation to support the average activity times or annual hour declarations.
2. The district claimed \$3,612 in costs that were not related to the intradistrict attendance mandated program. This includes \$1,181 for employees who attended a meeting on November 19, 2001. District staff stated the meeting purpose was to update staff on changes to the district's intradistrict attendance policy. However, the meeting agenda did not support that the meeting was related to the mandated program, and identified the meeting as "training time." *Parameters and Guidelines* do not identify training as a reimbursable activity.
3. The district claimed \$1,104 for employee activities performed in FY 2002-03.

Total unallowable salaries and benefits and related indirect costs are summarized as follows:

	<u>Fiscal Year</u>		<u>Total</u>
	<u>2000-01</u>	<u>2001-02</u>	
Salaries and benefits	\$ (576,583)	\$ (51,984)	\$ (628,567)
Related indirect costs	<u>(56,333)</u>	<u>(3,945)</u>	<u>(60,278)</u>
Audit adjustment	<u>\$ (632,916)</u>	<u>\$ (55,929)</u>	<u>\$ (688,845)</u>

Parameters and Guidelines states that reimbursable activities consist of the following:

1. Preparation and adoption of rules and procedures regarding the intradistrict open enrollment plan for the district.
2. Establishing and operating a random, unbiased selection process in excess of school site capacity for intradistrict transfers.
3. Determining the total enrollment and program capacity of each school in the district.
4. Evaluating each selected intradistrict transfer to ascertain the impact of the requested transfer upon the maintenance of appropriate racial and ethnic balances among the respective schools.

Parameters and Guidelines also states that the average number of hours may be claimed if supported by a documented time study. In addition, all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs.

Recommendation

The district should maintain adequate documentation to support claimed costs. Average hours used to claim costs should be supported by a documented time study. The district should also ensure that costs claimed are applicable to and reimbursable under the mandated program.

District’s Response

The District does not agree with the findings that the documentation in question was not supported.

The main issue is inconsistency in the audit review. According to the Audit Manager on this audit, some of the documentation was inadequate based on [Office of Management and Budget] OMB Circular A-87 guidelines. It was stated that the dated material was not completed contemporaneously, or at least monthly, and secondly that the employee must sign all of the “personnel activity reports.”

However, there is no reference to this circular in any parameter and guidelines. In addition, this requirement has never been addressed in any previous audit at San Francisco Unified School District. We are concerned that new standards are being applied to prior year claims.

Fiscal Year 2000-01

The SCO auditor determined that time logs for August 2001 through October 2001 were not representative of the fiscal year. So to resolve the problem, the next year (2001-2002) was used, for calculating the 12-month period for 2000-2001. It seems that the auditor is “determining” what will be used and is not allowing the parameter and guidelines to guide the data for reasonableness.

Another issue is the decision by the auditor to prorate the transfers for the two years. The auditor only allowed 47.52% of the transfers for the two years because of combining the two years and not auditing them independently. . . .

The second part of this finding . . . is the unallowable salary costs of \$423,884 for district school site staff.

The District claimed \$87,185 for school site staff to enroll and disenroll students based on intradistrict transfer requests. In the past this has been an acceptable practice since after the request it is necessary to enroll and disenroll students.

Unallowable costs of \$331,712 were claimed to not be supported by adequate source documentation. However, there are no specific guidelines regarding adequate source documentation for reporting average time activity. The parameters and guidelines base average time on a time study, but the SCO has no guideline for time studies and does not train or give any example as to what is acceptable.

The additional amount of \$4,987 will not be contested.

Fiscal Year 2001-02

For this current year the unallowable costs for salaries and benefits totaled \$51,984. Again, the unallowable costs included \$42,501 for EPC staff and \$9,483 for District school site staff. The unallowable costs were similar for the prior year and we believe that we have provided adequate documentation.

The SCO audit staff said that the District claimed \$3,612 in costs that were not related to the intradistrict attendance mandate program. The District identified that \$1,181 was related to the mandate program and who attended the meeting. The documentation was denied, even after the District responded with additional data after the exit conference.

Another amount of \$1,104 was not accepted because, even though the activity was performed in the 2001-02 year, the document was signed in the 2002-03 year. This has not been a problem with other claims until now.

SCO's Comment

The finding and recommendation are unchanged. A typographical error in the draft report was corrected to reflect the total unallowable salary and benefit costs.

There is no inconsistency in the SCO audit review. *Parameters and Guidelines* states that costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs. Furthermore, *Government Code* Section 17561 states that the SCO may reduce any claim determined to be excessive or unreasonable. OMB Circular A-87 is nationally recognized as providing consistent guidance to states and local governments regarding appropriate documentation for salaries and wages and other cost items. In addition, the SCO's audit of the district's Intradistrict Attendance program for FY 1999-2000 also reported unallowable costs claimed based on average times per activity, declarations, or allocations of hours worked to the mandate program.

FY 2000-01

The following comments address the district's comments regarding: (1) EPC staff costs, (2) costs to enroll and disenroll students, and (3) school district site staff costs:

1. The district proposed using time logs for August 2001 through October 2001 to support cost claimed for FY 2000-01, because existing documentation for FY 2000-01 was inadequate. The auditor determined that 12 months rather than 3 months of time logs was a more reasonable representation of a fiscal year. This determination was validated because prorated employee hours claimed by the district based on 3 months data totaled 8,907 hours, while 12 months of actual time logs totaled only 7,348 hours. Further, the district is incorrect in stating that the auditor chose to use the "next year" of data. The August 2001 through October 2001 data used by the district is included in the 12 months of data used by the auditor.

In addition, the district's comments regarding prorating transfers between fiscal years is incorrect. The cost calculated for FY 2001-02 was applicable to 23,226 intradistrict transfer requests reported by the district. Because the district reported only 11,036 transfers for FY 2000-01, the auditor calculated allowable costs for FY 2000-01 based on a ratio of FY 2000-01 transfers versus FY 2001-02 transfers, multiplied by the cost calculated from FY 2001-02 documented hours.

2. *Parameters and Guidelines* identifies the reimbursable activities related to the Intradistrict Attendance mandate program. Although enrolling and disenrolling students may be an activity associated with intradistrict transfers, it is not a reimbursable activity under the mandate.
3. The district has not provided any corroborating evidence to support costs claimed. In addition, the district has not prepared or proposed a time study to document costs claimed based on average times per activity, annual declarations, or allocations of hours worked to the mandate program.

FY 2001-02

FY 2001-02 unallowable costs for EPC staff are not related to FY 2000-01 unallowable costs. The district did not respond to the audit finding regarding unsupported contract hours and fringe benefit costs used to calculate hourly wage rates claimed. Unallowable costs of \$4,767 for district school site staff are similar to FY 2000-01 unallowable costs and the SCO comment for FY 2000-01 costs applies to these costs also.

Documentation submitted to support unallowable costs of \$1,181 is a meeting agenda that identifies specific non-mandate related agenda items. In addition, remaining agenda items do not specifically reference intradistrict attendance issues, and the agenda does not identify time spent on individual agenda items.

Unallowable costs of \$1,104 did not result from the date the document was signed. Unallowable costs resulted from two time logs: one indicates that the activities recorded were for the period of August 27, 2002, through November 27, 2002; the second indicates the activities recorded were for the period of September 1, 2002, through October 11, 2002.

**FINDING 2—
Unallowable materials
and supplies**

The district claimed unallowable materials and supplies costs totaling \$6,020 for FY 2000-01. Unallowable costs included \$6,007 for postage and transfer applications, and \$13 for photocopies. The related indirect cost is \$589. Costs claimed were not supported by adequate source documentation or not related to the mandated program.

The district claimed \$5,434 for postage costs and \$883 for the cost of transfer applications, totaling \$6,317. Postage costs of \$0.44 were claimed for each intradistrict transfer accepted or denied for the fiscal year. Transfer application costs of \$0.08 were claimed for each intradistrict transfer accepted. The district reported 11,036 transfers accepted and 1,314 transfers denied.

The district did not provide adequate documentation to support the number of intradistrict transfers reported. The district submitted intradistrict transfer documentation for 99 of 105 district school sites. The district reported 11,887 intradistrict transfers accepted or denied for these school sites, but was able to provide supporting documentation for only 583 transfers, or 4.9% of total transfers reported. As a result, 95.1% of postage and transfer application costs claimed is unallowable, totaling \$6,007 ($95.1\% \times \$6,317 = \$6,007$).

In addition, the district claimed \$13 for photocopies. Supporting documentation shows that this cost is not related to the mandated program.

Parameters and Guidelines states that all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs. In addition, only materials and supplies expenditures that can be identified as a direct cost of the mandate can be claimed.

Recommendation

The district should maintain adequate documentation to support claimed costs and ensure that costs claimed are directly related to the mandated program.

District's Response

The District will not dispute the unallowable material and supply cost of \$6,007 if there was not adequate documentation to support the costs.

SCO's Comment

The finding and recommendation are unchanged. The district did not provide any additional documentation to support unallowable materials and supplies costs.

**FINDING 3—
Unreported offsetting
revenues**

The district did not deduct offsetting revenues of \$208,382 (\$78,644 for FY 2000-01 and \$129,738 for FY 2001-02) from costs claimed during the audit period.

The district's records show that various employees' salaries were fully funded with other revenue sources (restricted funds) such as Court Ordered Desegregation, Targeted Instructional Improvement Grant, and IASA-Title VII Emergency Immigrant Education Program. The SCO auditor calculated offsetting revenues based on allowable costs claimed after audit adjustments taken in Finding 1.

Parameters and Guidelines states that reimbursement for this mandated program received from any source (e.g., service fees collected, federal funds, other state funds, etc.) shall be identified and deducted from the claim.

Recommendation

The district should ensure that any costs reimbursed from other revenue sources are deducted from costs claimed for the mandated program.

District's Response

Even though the District was unaware in previous years that this was unallowable, nor was this a part of the audit two years ago, the District will not contest that if employees were fully funded by restricted funds the offsetting revenues of \$208,382 will not be allowed.

SCO's Comment

The prior SCO audit report for the Intradistrict Attendance Program did include an audit finding related to offsetting revenues.

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



George A. Kozitza, Ed.D.
Chief Business Officer
Ph. (415) 241-6542 • FAX # 241-6482
gkozitz@muse.sfusd.edu

San Francisco Unified School District 135 Van Ness Avenue San Francisco California 94102-5299

April 28, 2004

Jim L. Spano, Chief
Compliance Audit Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874

Re: Response to Draft Audit Report (Intradistrict Attendance Program for FY 2000-2002)

Dear Mr. Spano:

We have received the draft report of your audit on claims filed by the San Francisco Unified District (District) relating to the mandate Intradistrict Attendance Program for the period of July 1, 2000 through June 30, 2002. The District claimed \$1,179,666 for the mandate program. The audit disclosed that \$275,831 is allowable and \$903,835 is unallowable. The SCO stated in the report that the unallowable costs occurred primarily because the District claimed unsupported costs.

The District does not agree with the findings that the documentation in question was not supported.

The main issue is inconsistency in the audit review. According to the Audit Manager on this audit, some of the documentation was inadequate based on OMB Circular A-87 guidelines. It was stated that the dated material was not completed contemporaneously, or at least monthly, and secondly that the employee must sign all of the "personnel activity reports".

However, there is no reference to this circular in any parameter and guidelines. In addition, this requirement has never been addressed in any previous audit at San Francisco Unified School District. We are concerned that new standards are being applied to prior year claims.

The audit report identifies three findings with audit adjustments totaling \$903,835.

Finding 1 – Unallowable Salaries and Benefits

The report is incorrectly reporting that the District claimed unallowable salaries and benefits totaling \$1,075,081. The figure that should be used to be consistent is \$628,567.

Fiscal Year 2000-01

The report states that unallowable costs included \$152,699 for Education Placement Center (EPC) staff and \$423,884 for school District site staff.

The SCO auditor determined that time logs for August 2001 through October 2001 were not representative of the fiscal year. So to resolve the problem, the next year (2001-2002) was used, for calculating the 12-month period for 2000-2001. It seems that the auditor is "determining" what will be used and is not allowing the parameter and guidelines to guide the data for reasonableness.

Another issue is the decision by the auditor to prorate the transfers for the two years. The auditor only allowed 47.52% of the transfers for the two years because of combining the two years and not auditing them independently.

The two decisions by the SCO auditor, which are not part of the parameter and guidelines, resulted in the Education Placement Center salaries to be unallowable by \$152,699.

The second part of this finding for the fiscal year 2000-2001 is the unallowable salary costs of \$423,884 for district school site staff.

The District claimed \$87,185 for school site staff to enroll and disenroll students based on intradistrict transfer requests. In the past this has been an acceptable practice since after the request it is necessary to enroll and disenroll students.

Unallowable costs of \$331,712 were claimed to not be supported by adequate source documentation. However, there are no specific guidelines regarding adequate source documentation for reporting average time activity. The parameter and guidelines base average time on a time study, but the SCO has no guideline for time studies and does not train or give any example as to what is acceptable.

The additional amount of \$4,987 will not be contested.

Fiscal Year 2001-02

For this current year the unallowable costs for salaries and benefits totaled \$51,984. Again, the unallowable costs included \$42,501 for EPC staff and \$9,483 for District school site staff. The unallowable costs were similar for the prior year and we believe that we have provided adequate documentation.

The SCO audit staff said that the District claimed \$3,612 in costs that were not related to the intradistrict attendance mandate program. The District identified that \$1,181 was related to the mandate program and who attended the meeting. The documentation was denied, even after the District responded with additional data after the exit conference.

Another amount of \$1,104 was not accepted because, even though the activity was performed in the 2001-02 year, the document was signed in the 2002-03 year. This has not been a problem with other claims until now.

Finding 2 – Unallowable materials and supplies

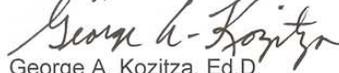
The District will not dispute the unallowable material and supply cost of \$6,007 if there was not adequate documentation to support the costs.

Finding 3 – Unreported offsetting revenues

Even though the District was unaware in previous years that this was unallowable, nor was this a part of the audit two years ago, the District will not contest that if employees were fully funded by restricted funds the offsetting revenues of \$208,382 will not be allowed.

We appreciate your giving us the opportunity to respond to this draft audit report.

Sincerely,



George A. Kozitza, Ed.D.
Chief Business Officer

cc: Mary Downey, Budget Director
Paulette Terrell, Director of Fiscal Services

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