

SANTA CLARA COUNTY OFFICE OF EDUCATION

Reissued Audit Report

MIGRANT EDUCATION PROGRAM

July 1, 2013, through June 30, 2014



BETTY T. YEE
California State Controller

August 2016



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California State Controller

August 29, 2016

Veronica Aguila, Director
California Department of Education
English Learner Support Division
Migrant Education Program
1430 N Street, Suite 2204
Sacramento, CA 95814-5901

Dear Ms. Aguila:

The State Controller's Office, pursuant to an Interagency Agreement with the California Department of Education, conducted an audit of the Santa Clara County Office of Education's (COE) Migrant Education Program (MEP) for the period of July 1, 2013, through June 30, 2014.

This report has been reissued to correct the name of the entity responsible for the questioned cost of \$30,774 as described in Finding 3. Santa Clara Unified School District is responsible, not the Santa Clara COE. We have also made updates to the Finding responses for clarity purposes. The reissued report has no impact on the total finding.

The purpose of the audit was to determine whether the Santa Clara COE complied with the United States Department of Education Office of Migrant Education's MEP requirements; specifically, that the Santa Clara COE maintained proper internal controls to ensure that the program-related costs were incurred for eligible and approved activities, and the accounts and records substantiate that the funds were expended for allowable activities.

The Santa Clara COE maintained adequate internal controls to ensure that it complied with applicable federal and state laws and regulations, and that MEP funds were expended for approved allowable costs; however, we found instances where, in submitting its expenditure reports to the California Department of Education, the Santa Clara COE included costs totaling \$393,337 that were deemed unallowable due to lack of adequate documentation. Primarily, the sub-recipients did not maintain required personal activity reports for some of their affected employees. Furthermore, the Santa Clara COE did not provide sufficient oversight to its sub-recipient districts by ensuring that they adhere to Section 1306(b) (2) of Title 1 Part C (the federal "supplement, not supplant" provision) and Title 2, *Code of Federal Regulations* (CFR), Part 225 (federal cost principles).

In addition, we determined that the Santa Clara COE did not fully comply with 34 CFR 80.36 (procurement) and the California MEP Fiscal Handbook, 2007, when it procured its contracts and allocated the MEP funds to its sub-recipient districts.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, by telephone at (916) 324-6310.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/ljs

Attachment

cc: Jon R. Gundry, Superintendent
Santa Clara County Office of Education
Steve Olmos, Chief Schools Officer
Santa Clara County Office of Education
Veronica Ramos, Director III
Santa Clara County Office of Education
Celina Torres, Education Administrator I
English Learner Support Division
California Department of Education
Kevin Chan, Director
Audits and Investigations Division
California Department of Education

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Reissued Audit Report

Summary

The State Controller's Office (SCO) conducted an audit of the Santa Clara County Office of Education's (COE) Migrant Education Program (MEP) for the period of July 1, 2013, through June 30, 2014.

The purpose of the audit was to determine whether the Santa Clara COE complied with the United States Department of Education Office of Migrant Education's MEP requirements; specifically, that the Santa Clara COE maintained proper internal controls to ensure that program-related costs were incurred for eligible and approved activities, and that the accounts and records substantiate that the funds were expended for allowable activities.

We determined that the Santa Clara COE maintained adequate internal controls to ensure that it complied with applicable federal and state laws and regulations, and that MEP funds were expended for approved allowable costs. However, in submitting its expenditure reports to California Department of Education (CDE), the Santa Clara COE included costs totaling \$393,337 that were deemed unsupported and, hence, unallowable due to lack of adequate documentation. Primarily, the sub-recipients did not maintain required personal activity reports for some of their affected employees. Furthermore, the Santa Clara COE did not provide sufficient oversight to its sub-recipient districts by ensuring that they adhere to Section 1306(b) (2) of Title 1 Part C (the federal "supplement, not supplant" provision) and Title 2, *Code of Federal Regulations* (CFR), Part 225 (federal cost principles).

In addition, we determined that the Santa Clara COE did not fully comply with 34 CFR 80.36 (procurement) and the California MEP Fiscal Handbook, 2007, when it procured its contracts and allocated the MEP funds to its sub-recipient districts.

Background

The MEP is authorized under the federal "No Child Left Behind Act" and is funded by Title I, Part C, with the mission of providing supplementary services to ensure that migrant children meet the same academic standards that non-migrant children are expected to meet.

Funds support high-quality education programs for migrant children and help ensure that those children who relocate are not penalized in any manner by disparities among states in curriculum, graduation requirements, or state academic content and student academic achievement standards. Funds also ensure that migrant children are provided with appropriate education services (including supportive services) that address their special needs and that migrant students receive full and appropriate opportunities to meet the same state academic content and student academic achievement standards that non-migrant children are expected to meet. Federal funds are allocated by formula to state educational agencies, based on each state's per-pupil expenditure for education and counts of eligible migrant children, ages 3 through 21, residing within the state.

The allowable MEP efforts are identified, formulated, and developed in concert with the CDE and the State's 23 MEP regions/sub-grantees. The regions/sub-grantees include county offices of education and/or school districts. At the state level, the CDE also administers and monitors the federal pass-through funds for the MEP sub-grantees and recipients.

The Santa Clara COE provides, administers, and directly oversees MEP services for nine districts, while sub-granting MEP funds to 21 other districts through a District Service Agreement. These sub-recipient districts are responsible for directly providing and administering MEP services for their students and are subject to regional oversight. The Santa Clara COE also funds a consortium of school districts, typically with an enrollment of fewer than 200 migrant students, in which MEP services are provided through a Memorandum of Understanding. The Santa Clara COE and sub-recipient districts offer migrant instructional services to eligible migrant students through various extended day settings: after school instruction, Saturday school, home tutorial programs, and summer schools. Other services to migrant students include mobile dental services, health advocacy, pre-college outreach programs, and education-based field trips.

The Office of Migrant Education conducted a review of the MEP and issued the review in September 2011. The California State Auditor audited the administration of this federally-funded MEP administered by the CDE and issued its audit report in February 2013. The reviews did not identify any specific administrative oversight concerns of the region or its sub-recipients.

The CDE requested that the SCO assess administrative oversight efforts¹ and conduct this performance audit of the MEP sub-grantees.

The SCO's authority to conduct this audit is given by:

- Interagency Agreement No. CN 140308 effective February 1, 2015, between the SCO and the CDE, which provides that the SCO will conduct an independent management review of the CDE's administrative oversight efforts, including technical assistance provided to MEP sub-grantees, and an independent management review of MEP sub-grantee fiscal administrative and reporting practices over MEP funding.
- Government Code section 12410, which states, "The Controller shall superintend the fiscal concerns of the state. 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"

¹ This assessment will be covered in a separate management letter to the CDE.

Objectives, Scope, and Methodology

The purpose of the audit was to determine whether the Santa Clara COE complied with the federal MEP requirements; specifically, that the Santa Clara COE maintained proper internal controls to ensure that the Santa Clara COE's efforts and program-related costs were incurred for eligible and approved MEP program activities, and that accounting records and source documents substantiate that the MEP funds were expended for approved allowable activities for the audit period of July 1, 2013, through June 30, 2014.

Audit methodologies included, but were not limited to, the following:

- Reviewing applicable state and federal requirements related to the MEP, including the California MEP Fiscal Handbook, 2007;
- Reviewing prior audits, including single audit reports, and written policies and procedures relating to the MEP;
- Reviewing the MEP regional application, and budget and quarterly expenditure reports;
- Conducting inquiries with personnel, and reviewing and assessing related internal controls; and
- Obtaining and reviewing supporting documentation to ensure that MEP expenditures for costs were necessary, reasonable, and allowable.

We conducted this performance 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.

Conclusion

The Santa Clara COE maintained adequate internal controls to ensure that it complied with applicable federal and state laws and regulations, and that MEP funds were expended for approved allowable costs; however, we found instances where, in submitting its expenditure reports to the CDE, the Santa Clara COE included costs totaling \$393,337 that were deemed unallowable due to lack of adequate documentation. Primarily, the sub-recipients did not maintain required personal activity reports for some of their affected employees. Furthermore, the Santa Clara COE did not provide sufficient oversight to its sub-recipient districts by ensuring that they adhere to Section 1306(b) (2) of Title 1 Part C (the federal "supplement, not supplant" provision) and 2 CFR 225 (federal cost principles).

In addition, we determined that the Santa Clara COE did not fully comply with 34 CFR 80.36 (procurement) and the California MEP Fiscal Handbook, 2007, when it procured its contracts and allocated the MEP funds to its sub-recipient districts.

**Views of
Responsible
Officials**

We issued a draft report on April 22, 2016. Veronica Ramos, Director, Santa Clara COE MEP, responded by e-mail on May 12, 2016, agreeing with the Findings, except for Findings 7, 8, and 10. The Santa Clara COE's response is included as an attachment.

**Reason for
Reissuance**

This report has been reissued to correct the name of the entity responsible for the questioned cost of \$30,774 as described in Finding 3. Santa Clara Unified School District is responsible, not the Santa Clara COE. We have also made updates to the Finding responses for clarity purposes. The reissued report has no impact on the total finding.

Restricted Use

This report is solely for the information and use of the Santa Clara COE, the United States Department of Education, the CDE, and the SCO. It is not intended to be and should not be used by anyone other than these specified parties. The restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 29, 2016

Schedule 1— Summary of Reported, Audited, and Questioned Costs July 1, 2013, through June 30, 2014 (includes 5th Quarter*)

Object Code	Description	Reported Costs	Audited Costs	Questioned Costs	Reference
Certificated Personnel Salaries					
1100	Teachers	\$ 1,043,389	\$ 1,017,306	\$ 26,083	Finding 1
1200	Pupil Support Services	120,661	120,661	-	
1300	Supervisor/Administrators	596,358	532,276	64,082	Finding 2
1900	Other Certificated Salaries	8,259	8,259	-	
	Subtotal	\$ 1,768,667	\$ 1,678,502	\$ 90,165	
Classified Salaries					
2100	Instructional Aides	\$ 509,268	\$ 478,494	\$ 30,774	Finding 3
2200	Support Services Salaries	1,100,566	1,100,566	-	
2300	Supervisor/Administrators	128,784	128,784	-	
2400	Clerical, Technical and Office Staff	394,076	360,319	33,757	Finding 4
2900	Other Classified Salaries	716,909	716,909	-	
	Subtotal	\$ 2,849,603	\$ 2,785,072	\$ 64,531	
Benefits					
3000-3900	Employee Benefits	\$ 1,610,350	\$ 1,610,350	\$ -	
	Subtotal	\$ 1,610,350	\$ 1,610,350	\$ -	
Books and Supplies:					
4100	Textbooks Curricula Materials	\$ -	\$ -	\$ -	
4200	Books & Reference Materials	11,103	11,103	-	
4300	Materials & Supplies	458,257	434,185	24,072	Finding 6
4400	Noncapitalized Equipment	87,552	76,133	11,419	Finding 7
4700	Food	401	401	-	
	Subtotal	\$ 557,313	\$ 521,822	\$ 35,491	
Services and Other Operating Expenditures					
5100	Subagreements for Services	\$ -	\$ -	\$ -	
5200	Travel & Conference	98,254	98,254	-	
5300	Dues & Memberships	30,218	30,218	-	
5400	Insurance	-	-	-	
5500	Operations & Housekeeping Services	2,275	2,275	-	
5600	Rentals, Leases, Repairs & Noncapitalized Improvements	22,931	22,931	-	
5700	Transfers of Direct Costs	117,461	117,461	-	
5800	Professional and Consulting Services and Expenses	866,041	662,891	203,150	Finding 8
5900	Communications	18,699	18,699	-	
	Subtotal	\$ 1,155,879	\$ 952,729	\$ 203,150	
Capital Outlay					
6000	CAPITAL OUTLAY	\$ -	\$ -	\$ -	
	SUBTOTAL	\$ -	\$ -	\$ -	
	Subtotal	\$ 7,941,812	\$ 7,548,475	\$ 393,337	
	Indirect Cost	622,428	622,428	-	
	Total**	\$ 8,564,240	\$ 8,170,903	\$ 393,337	

* The fifth quarter is the first quarter of the following fiscal year, during which the region is allowed to spend funds that were not spent in the current fiscal year.

** The total amount reported is \$8,564,243, or \$3 more than our schedule shows. The difference is attributed to rounding.

Corrected Findings and Recommendations

**FINDING 1—
Inadequate
support of salaries
and wages**

In performing a substantive testing of expenses in the Certificated Personnel Salaries Account (Object Code 1100), we noted that one of the Santa Clara COE's sub-recipient districts (San Benito High School District) was unable to support one of its MEP employees' salaries and wages with proper time records required for employees working on multiple cost activities. We were provided with a personnel activity report (PAR) for the period from January through June of fiscal year (FY) 2013-14, signed by an employee on March 14, 2014, showing that employee's time allocated, using percentage allocation, to two programs: Migrant Education (50%) and General Fund (50%). When we brought to the Santa Clara COE's attention our observation of the date (March) on which the employee certified for the months of April, May, and June, the district provided another semi-annual certification for the same period and signed by the employee on August 11, 2014, which led us to question the validity of both documents.

We disallowed the district's claim, in the amount of \$26,083, for its MEP employee's salaries and wages, as it was not properly supported as required by the federal cost principles prescribed by 2 CFR 225.

Criteria

2 CFR 225, Appendix B, Section h, Support of salaries and wages, states that for employees working on multiple cost objectives (activities), their time distribution should be supported with personnel activity reports that must reflect an after-the-fact distribution of the actual activity, must be prepared at least monthly, and must coincide with one or more pay periods.

Recommendation

To ensure compliance with the standards prescribed in 2 CFR 225, the Santa Clara COE should improve its monitoring of sub-recipient districts' expenditures when it reviews supporting documentation. Furthermore, the Santa Clara COE should evaluate whether its sub-recipient districts receive sufficient technical assistance to ensure their compliance with applicable regulations, and provide them with such assistance if necessary.

Santa Clara COE's Response

The Santa Clara COE concurred with the finding.

**FINDING 2—
Inadequate
support of salaries
and wages**

In performing a substantive testing of expenses in the Certificated Personnel Salaries – Supervisors/Administrators Account (Object Code 1300), we noted that one of the Santa Clara COE's sub-recipient districts (Hollister School District) was unable to support its MEP employee's salaries and wages with proper PARs that meet the requirements prescribed by 2 CFR 225. We were provided with the PARs showing a percentage allocation of the employee's time rather than an actual allocation as required. An accompanying staff weekly log sheet appeared to show an actual allocation of that employee's activities, but it

did not coincide with the pay period or year under review. It was not signed by the employee and did not accurately report the employee's hours. We disallowed the district's claim, in the amount of \$64,082, for its employee's salaries and wages, as the claim was not properly supported as required by the federal cost principles prescribed in 2 CFR 225.

Criteria

2 CFR 225, Appendix B, Section 8.h (5) (a) states that personnel activity reports "...must reflect an after-the-fact distribution of the actual activity of each employee."

2 CFR 225, Appendix B, Section 8.h (5) (e) states: "Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards...."

Recommendation

To ensure compliance with the standards prescribed in 2 CFR 225, the Santa Clara COE should improve its monitoring of its sub-recipient districts' expenditures when it reviews supporting documentation. Furthermore, the Santa Clara COE should evaluate whether its sub-recipient districts receive sufficient technical assistance to ensure their compliance with applicable regulations, and provide them with such assistance if necessary.

Santa Clara COE's Response

The Santa Clara COE concurred with the finding.

CORRECTED FINDING 3— Inadequate support of salaries and wages

In performing a substantive testing of expenses in the Instructional Aides' Salaries Account (Object Code 2100), we noted that two of the Santa Clara COE's sub-recipient districts (Santa Clara Unified School District and Hollister School District) did not comply with the federal cost principles prescribed in 2 CFR 225. The Santa Clara Unified School District was unable to support its MEP employees' salaries and wages with adequate timekeeping documentation for employees selected for substantive testing. Hollister School District provided the semi-annual certifications that were signed on May 16, 2014, before the certification period of January through June of 2014 ended. We disallowed Santa Clara Unified School District's claim in the amount of \$30,774 for its MEP employees' salaries and wages, as the claim was not properly supported as required by the federal cost principles prescribed in 2 CFR 225. We also questioned Hollister's internal control activities; specifically, its oversight of time-recording and approval processes.

Criteria

2 CFR 225 Appendix B, Section h, Support for salaries and wages, Subsection 4, states: "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5)...."

2 CFR 225, Appendix B, Section h, Support for salaries and wages, Subsection 5(c), states that PARS "...must be prepared at least monthly and must coincide with one or more pay periods..."

2 CFR 225, Appendix B, Section 8.h (5) (a) states that timesheets, or their equivalents, "...must reflect an after-the-fact distribution of the actual activity of each employee."

Recommendation

To ensure compliance with the standards prescribed in 2 CFR 225, the Santa Clara COE should improve its monitoring of sub-recipient districts' expenditures when it reviews supporting documentation. Furthermore, the Santa Clara COE should evaluate whether its sub-recipient districts receive sufficient technical assistance to ensure their compliance with applicable regulations, and provide them with such assistance if necessary.

Santa Clara COE's Response

The Santa Clara COE concurred with the finding.

FINDING 4— Inadequate support of salaries and wages

In performing substantive testing of expenses in the Clerical, Technical and Office Salaries Account (Object Code 2400), we noted that one of the Santa Clara COE's sub-recipient districts (San Benito High School District) was unable to support its MEP employee's salaries and wages with a proper semi-annual certification necessary for employees working a single cost objective. We were provided with a semi-annual certification that contained multiple errors and deficiencies. Specifically, the San Benito High School District's MEP employee checked her semi-annual certification for the period of January 1, 2014, through June 30, 2014, but included a statement for the period of July 1, 2013, through December 31, 2013, and signed it on March 14, 2014. When we brought to the Santa Clara COE's attention our observation of the date on which the employee certified for the months of April, May, and June, the district provided another semi-annual certification for the same period and signed by the employee on August 11, 2014, which led us to question the validity of both documents.

We disallowed the district's claim, in the amount of \$33,757, for its MEP employee's salaries and wages, as the claim was not properly supported as required by the federal cost principles prescribed in 2 CFR 225.

Criteria

2 CFR 225, Appendix B, Section h, Support for salaries and wages, Subsection 3, states:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having a first knowledge of the work performed by the employee.

Recommendation

To ensure compliance with the standards prescribed by 2 CFR 225, the Santa Clara COE should improve its monitoring its sub-recipient districts' expenditures when it reviews supporting documentation. Furthermore, the Santa Clara COE should evaluate whether its sub-recipient districts receive sufficient technical assistance to ensure their compliance with applicable regulations, and provide them with such assistance if necessary.

Santa Clara COE's Response

The Santa Clara COE concurred with the finding.

FINDING 5— Internal Control: Insufficient oversight of time- recording and approval process

In performing substantive testing of expenses in the Other Classified Salaries Account (Object Code 2900), we noted that two of the Santa Clara COE's sub-recipient districts (San Francisco Unified and East Side Union High School District) were unable to support their MEP employees' salaries and wages with proper semi-annual certifications necessary for employees working a single cost objective. The Semi-Annual Time Certification forms for San Francisco Unified District MEP's employees were signed by both the employees and a supervisory official on May 16, 2014; however, the certification period was from January 1, 2014, through May 30, 2014. The Semi-Annual Certification forms for East Side Union High School District MEP's employees were signed by a supervisory official on December 5, 2013, and May 13, 2014; however, the certification periods were from July 1, 2013, through December 31, 2013, and January 1, 2014, through June 30, 2014, respectively. We questioned the districts' internal control activities; specifically, their oversight of time-recording and approval processes.

Criteria

2 CFR 225, Appendix B, Section 8, part h(3) states that:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee.

Recommendation

To ensure compliance with the standards prescribed in 2 CFR 225, the Santa Clara COE should improve its monitoring of sub-recipient districts' expenditures when it reviews supporting documentation. Furthermore, the Santa Clara COE should evaluate whether its sub-recipient districts receive sufficient technical assistance to ensure their compliance with applicable regulations, and provide them with such assistance if necessary.

Santa Clara COE's Response

The Santa Clara COE concurred with the finding.

**FINDING 6—
Non-compliance
with “supplement,
not supplant”
provision**

In performing a substantive testing of expenses in the Materials and Supplies Account (Object Code 4300), we noted that one of the Santa Clara COE’s sub-recipient districts (Morgan Hill Unified District) used an allocation formula that was based on a number of migrant students and developed by the previous MEP director to allocate MEP funds with other available funds when it purchased supplies and materials to comply with the “supplement, not supplant” requirement prescribed in Part C of Title 1 of the Elementary and Secondary Education Act of 1965 (ESEA). We questioned the allowability of such methodology, as the federal requirements do not stipulate any formula in determining the percentage of the MEP funds to be used in combination with other non-MEP funds. We disallowed the district’s total claim of \$24,072 (\$20,207 for Scholastic Inc., PO No. 410611; and \$3,865 for Gilroy Gardens, PO No. 510002), as the claim was not properly allocated to the MEP funds as required.

Criteria

Section 1306(b) (2) of Part C of Title 1 of the ESEA states:

Funds provided under this part shall be used to address the needs of migratory children that are not addressed by services available from other Federal or non-Federal programs, except that migratory children who are eligible to receive services under part A may receive those services through funds provided under that part, or through funds under this part that remain after the agency addresses the needs described in paragraph.

Recommendation

To ensure compliance with the standards prescribed in Section 1306(b) (2) of Part C of Title 1, the Santa Clara COE should ensure that its sub-recipient districts allocate the MEP funds after it determines that the migrant students’ needs were not met with the other federal and/or state funds.

Santa Clara COE’s Response

The Santa Clara COE concurred with the finding.

**FINDING 7—
Unreasonable costs**

In performing a substantive testing of selected expenses in the Non-capitalized Equipment Account (Object Code 4400), we noted that one of the Santa Clara COE’s sub-recipient districts (Hollister School District) purchased 16 iPads and 16 three-year AppleCare Plus extended warranties for the iPads in the amounts of \$9,152 and \$1,584, respectively, without performing a cost price analysis. We disallowed the district’s total claim of \$11,419 (\$9,152 for iPads and \$1,584 for AppleCare Plus, plus \$683 tax), as we questioned the reasonableness of the district’s purchase.

Criteria

2 CFR 225, Appendix A, Section C Basic Guidelines, Subsection 2, Reasonable costs, states that “A cost is reasonable if, in its nature and amount, it does not exceed what which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur to cost.”

Recommendation

To ensure compliance with the standards prescribed in 2 CFR 225, the Santa Clara COE should improve its monitoring of sub-recipient districts' expenditures when it reviews supporting documentation. Furthermore, the Santa Clara COE should evaluate whether its sub-recipient districts receive sufficient technical assistance to ensure their compliance with applicable regulations, and provide them with such assistance if necessary.

Santa Clara COE's Response

The district supports the use of the Apple platform and wanted to use it for their students as it is student friendly. The District finds this platform to be the best for their students.

SCO's Comment

We were not provided with a cost/price analysis or sufficient documentation justifying the reason(s) for the purchase of Apple iPads among all other brands of tablets prior to the purchase. The finding remains unchanged.

FINDING 8— Insufficient documentation support

In performing a substantive testing of selected expenses in the Professional Consulting Services and Operating Expenditures Account (Object Code 5800), we noted that the Santa Clara COE failed to provide sufficient documentation to support its expenses, in the amount of \$210,887, for the following items:

- Excel Learning Academy LLC, in the amount of \$198,000
- College Parenting Program, in the amount of \$400
- LunchStop, in the amount of \$7,737
- Roy Juarez Jr., IMPACT Program, in the amount of \$4,750

The Santa Clara COE failed to properly procure Excel Learning Academy LLC (Excel Learning) for FY 2013-14. Instead, the Santa Clara COE extended its contract with Excel Learning, which was originally procured in FY 2010-11 with no clause in the contract term agreement indicating that the contract would be extended in the future. We disallowed the Santa Clara COE's claim in the amount of \$198,000, as the Santa Clara COE did not adhere to federal procurement requirements.

The Santa Clara COE paid \$2,000 to the College Parenting Program for four training sessions, though the contract required five training sessions for \$2,000. No documentation was provided to support the Santa Clara COE's claim of \$400 for the fifth session. We disallowed the amount of \$400, as the Santa Clara COE paid the contractor for a service not rendered as agreed to by both parties in the contract.

The Santa Clara COE failed to seek and obtain quotes for catering services outside its only vendor, LunchStop, stating that it was bound by language in its cafeteria services agreement that requires all on-site catering services to be provided by LunchStop. We disallowed the Santa Clara COE's claim in the amount of \$7,736.80, as the region did not adhere to federal procurement requirements.

The Santa Clara COE failed to provide us with proof of approval from the CDE for the IMPACT Program for FY 2013-14. We disallowed the Santa Clara COE's claim in the amount of \$4,750 for IMPACT services due to lack of documentation.

Criteria

California MEP Fiscal Handbook, 2007, Section 5.5, Audit Requirements and Record Retention, Subsection B.3 Source documentation, states "Accounting records shall be supported by source documentation such as purchase orders, invoices, payrolls, contracts, and sub-grant documents."

34 CFR 80.36 Section (b) (9) states, in part: "Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement."

34 CFR 80.36 Section (b) (2) states: "Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders."

34 CFR 80.36 (d) states:

Methods of procurement to be followed (1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403 (11) (currently set at \$100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.

Recommendation

To ensure compliance with the standards prescribed by 34 CFR 80.36 and California MEP Fiscal Handbook, 2007, the Santa Clara COE should improve its monitoring of its own expenditure documentation process and maintenance.

Santa Clara COE's Response

Region 1 followed all of the established policies and procedures established by SCCOE in procuring these contracts. LunchStop has a closed contract where SCCOE MEP must use them to cater any and all activities/events held at the Ridder Park building. The contract established by SCCOE does not allow programs to get outside bids or catering for the parent meetings, etc. that are held at Ridder Park.

SCO's Comment

- We were provided with additional explanation and documentation for the LunchStop contract. This is no longer an issue.
- Due to lack of documentation, we were unable to verify whether the procurement of the Excel contract met the criteria for competitive procurement. This item remains unchanged in the finding.
- Due to lack of documentation, we were unable to verify a payment for the College Parenting Program contract. This item remains unchanged in the finding.
- Due to lack of documentation, we were unable to verify approval from the CDE for the IMPACT Program contract. This item remains unchanged in the finding.

The Santa Clara COE should work with the CDE to resolve the \$203,150 in questioned costs.

**FINDING 9—
Non-compliance
with federal and
state procurement
regulations**

The Santa Clara COE was unable to provide documents related to the procurement of contractors/consultants sufficient to substantiate that the Santa Clara COE was in compliance with the procurement standards as required by 34 CFR 80.36 and the California MEP Fiscal Handbook, 2007. Specifically, the region lacked adequate maintenance of records to detail the significant history of a procurement, including the rationale for the method of procurement, selection of contract type, price or rate quotations from an adequate number of qualified sources, contractor selection or rejection, a cost or price analysis, and the basis for the contract price.

Criteria

34 CFR 80.36 states, in part:

(b) (9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

(c) (3) Grantees will have written selection procedures for procurement transactions. These procedures will ensure that all solicitations: (i) Incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. (ii) Identify all requirements which the offerors must fulfill and all other factors to be used in evaluating bids or proposals.

(d) (4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate.

(i) Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids or competitive proposals and one of the following circumstances applies:

(A) The item is available only from a single source;

- (B) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;
- (C) The awarding agency authorizes noncompetitive proposals; or
- (D) After solicitation of a number of sources, competition is determined inadequate.

(f) Contract cost and price. (1) Grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications.

Recommendation

To ensure adherence to standards prescribed by federal and state laws and regulations, the Santa Clara COE should improve its current procurement procedures and practices so that they include the following:

- Maintaining records sufficient to detail the history of procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
- Performing a cost or price analysis in connection with every procurement action.
- Including a clear process or written criteria for judging proposals, assessing technical qualifications of contracted personnel, and for assessing the quality of a technical approach.

Santa Clara COE's Response

The Santa Clara COE concurred with the finding.

FINDING 10— Insufficient fund allocation methodology

We determined that the Santa Clara COE did not use a sufficient funding allocation methodology that is based on the seven factors prescribed by the CDE in FY 2013-14. The methodology the Santa Clara COE used was based on only two factors, rather than the seven that are necessary to adequately distribute the funds among the districts based on their needs.

Criteria

California MEP Fiscal Handbook, 2007, Section 3.2, Fiscal Responsibilities, states that:

Each operating agency shall 1. Allocate funds in a manner consistent with program requirements as set forth in federal and state legislation. 2. Establish a written distribution of funds formula reflective of program needs, enrollment and/or other factors such as mobility, age, and grade level.

Recommendation

No recommendation is applicable, as the Santa Clara COE corrected its allocation methodology starting FY 2014-15.

Santa Clara COE's Response

This is no longer a finding as the most recent Director and management team re-developed the funding formula.

SCO's Comment

The observation noted was for FY 2013-14. We appreciate the Santa Clara COE made the necessary corrective action.

**Attachment—
Santa Clara COE's Response to
Draft Audit Report dated May 12, 2016**

Audit findings:

Finding	Amount denied:	Synopsis	Reply
1	\$26,083	PAR forms were not adequate enough from San Benito High School District. Time records were not in compliance	We have worked with districts to comply. We discuss the PAR process at our fiscal trainings twice a year and at our "at a glance" meetings at the beginning of the school year. We do not directly supervise the school districts, but provide technical assistance to keep them in compliance. We will advise them of this finding.
2	\$64,082	PAR forms were not adequate enough from Hollister School District. Time records were not in compliance.	We have worked with districts to comply. We discuss the PAR process at our fiscal trainings twice a year and at our "at a glance" meetings at the beginning of the school year. We do not directly supervise the school districts, but provide technical assistance to keep them in compliance. We will advise them of this finding.
3	\$30,774	Federal Cost Principles were not in compliance for Santa Clara Unified and Hollister School Districts. Time accounting not in compliance.	We have worked with districts to comply. We discuss the PAR process at our fiscal trainings twice a year and at our "at a glance" meetings at the beginning of the school year. We do not directly supervise the school districts, but provide technical assistance to keep them in compliance. We will advise them of this finding.
4	\$33,757	Federal Cost Principles were not in compliance for San Benito High School District. Time accounting not in compliance.	We have worked with districts to comply. We discuss the PAR process at our fiscal trainings twice a year and at our "at a glance" meetings at the beginning of the school year. We do not directly supervise the school districts, but provide technical assistance to keep them in compliance. We will advise them of this finding.
5	NA	Semi-annual certifications that are necessary were not complete for San Francisco Unified and East Side Union High School Districts.	SCCOE along with the MEP Director will provide technical assistance and create a process to document that semi-annual certifications are being followed.
6	\$24,072-Scholastic \$3,865-Gilroy Gardens	Non-compliance with Supplement, not supplant provision.	MEP will ensure trainings of supplant vs. supplement so districts know the difference. There is documentation that CDE has provided and we will

			ensure that districts receive of the training.
7	\$9,152-Apple iPads \$1,584-Apple Care \$683-Taxes	Unreasonable costs.	The district supports the use of the Apple platform and wanted to use it for their students as it is student friendly. The District finds this platform to be the best for their students.
8	\$198,000-Excel \$400-College Parenting Partners \$7,737-LunchStop \$4,750-Roy Juarez, Jr.	Insufficient documentation support. Procurement process issues with COE.	Region 1 followed all of the established policies and procedures established by SCCOE in procuring these contracts. LunchStop has a closed contract where we must use them to cater any and all activities/events held at the Ridder Park building. The contract established by SCCOE does not allow programs to get outside bids or catering for the parent meetings, etc. that are held at Ridder Park.
9	NA	Non-compliance with federal state procurement regulations	SCCOE will review the established procurement process, policies, and procedures to make sure we are in compliance.
10	NA	Insufficient fund allocation methodology	This is no longer a finding as the most recent Director and management team re-developed the funding formula.

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