

SAN JOSÉ UNIFIED SCHOOL DISTRICT

Audit Report

THE STULL ACT PROGRAM

Chapter 498, Statutes of 1983;
and Chapter 4, Statutes of 1999

*July 1, 1999, through June 30, 2008;
July 1, 2010, through June 30, 2012; and July 1, 2013, through June 30, 2015*



BETTY T. YEE
California State Controller

June 2018



BETTY T. YEE
California State Controller

June 28, 2018

Nancy Albarrán, Superintendent
San José Unified School District
855 Lenzen Avenue
San José, CA 95126

Dear Ms. Albarrán:

The State Controller's Office (SCO) audited the costs claimed by San José Unified School District for the legislatively mandated Stull Act Program for the period of July 1, 1999, through June 30, 2008; July 1, 2010, through June 30, 2012; and July 1, 2013, through June 30, 2015. We did not include the costs claimed for July 1, 2008, through June 30, 2010, in the audit period because the statute of limitations to initiate the audit of these years had expired. The district did not file a reimbursement claim for July 1, 2012, through June 30, 2013.

The district claimed \$3,740,878 for the mandated program. Our audit found that \$1,335,781 is allowable (\$1,342,346 less a \$6,565 penalty for filing a late claim) and \$2,405,097 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for non-mandated activities. The State paid the district \$1,841,150. Following the issuance of this report, the SCO's Local Government Programs and Services Division will notify the district of the adjustments via a system-generated letter for each fiscal year in the audit period.

This final audit report contains an adjustment to costs claimed by the district. If you disagree with the audit finding, you may file an Incorrect Reduction Claim (IRC) with the Commission on the State Mandates (Commission). Pursuant to Section 1185, subdivision (c), of the Commission's regulations (*California Code of Regulations*, Title 3), an IRC challenging this adjustment must be filed with the Commission no later than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended. You may obtain IRC information on the Commission's website at www.csm.ca.gov/forms/IRCFForm.pdf.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Susan Ellenberg, President

Board of Education
San José Unified School District

Florence Eng, Director
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San José Unified School District

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by San José Unified School District for the legislatively mandated Stull Act Program for the period of July 1, 1999, through June 30, 2008; July 1, 2010, through June 30, 2012; and July 1, 2013, through June 30, 2015. We did not include the costs claimed for July 1, 2008, through June 30, 2010, in the audit period because the statute of limitations to initiate the audit of these years had expired. The district did not file a reimbursement claim for July 1, 2012, through June 30, 2013.

The district claimed \$3,740,878 for the mandated program. Our audit found that \$1,335,781 is allowable (\$1,342,346 less a \$6,565 penalty for filing a late claim) and \$2,405,097 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for non-mandated activities. The State paid the district \$1,841,150.

Background

Chapter 498, Statutes of 1983, and Chapter 4, Statutes of 1999, added sections 44660 through 44665 to the California Education Code. The legislation provided reimbursement for specific activities related to evaluation and assessment of the performance of "certificated personnel" within each school district, except for those employed in local, discretionary educational programs.

On May 27, 2004, the Commission on State Mandates (Commission) determined that the legislation imposed a State mandate reimbursable under Government Code (GC) section 17514.

The program's parameters and guidelines establish the State mandate and define the reimbursement criteria. The Commission adopted the parameters and guidelines on September 27, 2005. In compliance with GC section 17558, SCO issues claiming instructions to assist school districts in claiming mandated program reimbursable costs.

The Commission-approved reimbursable activities are as follows:

- Evaluating and assessing the performance of certificated instructional employees related to the instructional techniques and strategies used by the employee and the employee's adherence to curricular objectives (Education Code section 44662(b) as amended by Chapter 498, Statutes of 1983);
- Evaluating and assessing the performance of certificated instructional employees who teach reading, writing, mathematics, history/social science, and science in grades 2 through 11 related to the progress of pupils toward the state adopted academic content standards as measured by state adopted assessment tests (Education Code section 44662(b) as amended by Chapter 4, Statutes of 1999); and

- Assessing and evaluating permanent certificated, instructional, and non-instructional employees who perform the requirements of educational programs mandated by state or federal law and receive an unsatisfactory evaluation in the years in which the permanent certificated employee would not have otherwise been evaluated pursuant to Education Code section 44664. The additional evaluations shall last until the employee achieves a positive evaluation, or is separated from the school district (Education Code section 44664 as amended by Chapter 498, Statutes of 1983).

Objective, Scope, and Methodology

The objective of our audit was to determine whether costs claimed represent increased costs resulting from the legislatively mandated Stull Act Program. Specifically, we conducted this audit to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

The audit period was from July 1, 1999, through June 30, 2008; July 1, 2010, through June 30, 2012; and July 1, 2013, through June 30, 2015.

To achieve our audit objective, we:

- Reviewed the annual mandated cost claims filed by the district for the audit period to identify the material cost components of each claim and to determine whether there were any errors or any unusual or unexpected variances from year to year. We also reviewed the activities claimed to determine whether they adhered to the SCO's claiming instructions and the program's parameters and guidelines;
- Completed an internal control questionnaire by interviewing district staff, and discussed the claim preparation process with district staff to determine what information was obtained, who obtained it, and how it was used;
- Requested supporting time documentation for the entire audit period. The district only maintained contemporaneous time documents for fiscal year (FY) 2007-08, FY 2010-11, FY 2011-12, FY 2013-14, and FY 2014-15. We calculated an average time allotment for permanent, probationary, and temporary employees for each fiscal year. We applied the averages to the individuals on the completed evaluations list that did not have an actual time document available;
- Requested and reviewed listings of employees evaluated for FY 2007-08, FY 2010-11, FY 2011-12, FY 2013-14, and FY 2014-15. Using a random number generator, we randomly selected a non-statistical sample and tested 778 evaluations (out of 3,065) for the audit period. During testing, we identified 14 errors in the sample that were not projected to the population;
- Traced a haphazardly selected sample of employees' claimed productive hourly rates (PHRs) to supporting documentation from the district's payroll system. For FY 2007-08, FY 2010-11, FY 2011-12, FY 2013-14, and FY 2014-15, we sampled and tested 186 employees. We noted material variances; therefore, we used the recalculated individual employees' PHRs for FY 2007-08 and average PHR for FY 2010-11, FY 2011-12, FY 2013-14, and FY 2014-15;

- Traced all claimed training costs to supporting documentation provided by the district, and noted any unallowable costs;
- Traced all claimed materials and supplies costs to supporting documentation provided by the district, and noted no errors; and
- Compared all claimed indirect cost rates to the rates allowed by the California Department of Education. We noted no errors; therefore, we accepted the rates as claimed.

The legal authority to conduct this audit is provided by GC sections 12410, 17558.5, and 17561. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures. Our audit scope did not assess the efficiency or effectiveness of program operations. We did not audit the district's financial statements.

Conclusion

Our audit found an instance of noncompliance with the requirements outlined in the Objective, Scope, and Methodology section. This instance is quantified in the accompanying Schedule (Summary of Program Costs) and described in the Finding and Recommendation section of this report.

For the audit period, San José Unified School District claimed \$3,740,878 for costs of the legislatively mandated Stull Act Program. Our audit found that \$1,335,781 is allowable (\$1,342,346 less a \$6,565 penalty for filing a late claim in FY 2010-11) and \$2,405,097 is unallowable.

- For the FY 1999-2000 through FY 2007-08 claims, we found that \$713,490 is allowable. The State paid the district \$1,839,150.
- For the FY 2010-11, FY 2011-12, FY 2013-14, and FY 2014-15 claims, we found that \$622,291 is allowable. The State paid the district \$2,000. The State will pay allowable costs claimed that exceed the amount paid, totaling \$620,291, contingent upon available appropriations.

Following the issuance of this report, the SCO's Local Government Programs and Services Division (LGPSD) will notify the district of the adjustments via a system-generated letter for each fiscal year in the audit period.

Follow-up on Prior Audit Findings

We have not previously conducted an audit of the district's legislatively mandated Stull Act Program.

**Views of
Responsible
Officials**

We issued a draft audit report on May 14, 2018. Marichi Valle, Manager, Business Support Services, responded by email dated May 23, 2018, neither agreeing nor disagreeing with the actual finding. However, the district's response is related to the overpayment of claims, which is addressed in the Other Issue section of this report. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of San José Unified School District, the Santa Clara 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, CPA
Chief, Division of Audits

June 28, 2018

Schedule—
Summary of Program Costs
July 1, 1999, through June 30, 2008;
July 1, 2010, through June 30, 2012;
and July 1, 2013, through June 30, 2015

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 1999, through June 30, 2000</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 150,761	\$ 63,709	\$ (87,052)
Total direct costs	150,761	63,709	(87,052)
Indirect costs	7,659	3,236	(4,423)
Total program costs	<u>\$ 158,420</u>	66,945	<u>\$ (91,475)</u>
Less amount paid by the State ²		(158,420)	
Amount paid in excess of allowable costs		<u>\$ (91,475)</u>	
<u>July 1, 2000, through June 30, 2001</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 161,720	\$ 66,527	\$ (95,193)
Total direct costs	161,720	66,527	(95,193)
Indirect costs	7,164	2,947	(4,217)
Total program costs	<u>\$ 168,884</u>	69,474	<u>\$ (99,410)</u>
Less amount paid by the State ²		(168,884)	
Amount paid in excess of allowable costs		<u>\$ (99,410)</u>	
<u>July 1, 2001, through June 30, 2002</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 156,576	\$ 68,013	\$ (88,563)
Total direct costs	156,576	68,013	(88,563)
Indirect costs	8,690	3,775	(4,915)
Total program costs	<u>\$ 165,266</u>	71,788	<u>\$ (93,478)</u>
Less amount paid by the State ²		(165,266)	
Amount paid in excess of allowable costs		<u>\$ (93,478)</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2002, through June 30, 2003</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 69,456	\$ 70,066	\$ 610
Total direct costs	69,456	70,066	610
Indirect costs	5,161	5,206	45
Total direct and indirect costs	74,617	75,272	655
Less allowable costs that exceed costs claimed ³	-	(655)	(655)
Total program costs	<u>\$ 74,617</u>	74,617	<u>\$ -</u>
Less amount paid by the State ²		(74,617)	
Allowable costs claimed in excess of amount paid		<u>\$ -</u>	
<u>July 1, 2003, through June 30, 2004</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 185,394	\$ 72,656	\$ (112,738)
Total direct costs	185,394	72,656	(112,738)
Indirect costs	10,438	4,091	(6,347)
Total program costs	<u>\$ 195,832</u>	76,747	<u>\$ (119,085)</u>
Less amount paid by the State ²		(195,832)	
Amount paid in excess of allowable costs		<u>\$ (119,085)</u>	
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 173,075	\$ 76,996	\$ (96,079)
Total direct costs	173,075	76,996	(96,079)
Indirect costs	9,311	4,142	(5,169)
Total program costs	<u>\$ 182,386</u>	81,138	<u>\$ (101,248)</u>
Less amount paid by the State ²		(182,386)	
Amount paid in excess of allowable costs		<u>\$ (101,248)</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 245,921	\$ 81,191	\$ (164,730)
Total direct costs	245,921	81,191	(164,730)
Indirect costs	12,321	4,068	(8,253)
Total program costs	<u>\$ 258,242</u>	85,259	<u>\$ (172,983)</u>
Less amount paid by the State ²		(258,242)	
Amount paid in excess of allowable costs		<u>\$ (172,983)</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 342,621	\$ 85,224	\$ (257,397)
Training activities	8,693	1,819	(6,874)
Total direct costs	351,314	87,043	(264,271)
Indirect costs	12,682	3,142	(9,540)
Total program costs	<u>\$ 363,996</u>	90,185	<u>\$ (273,811)</u>
Less amount paid by the State ²		(363,996)	
Amount paid in excess of allowable costs		<u>\$ (273,811)</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 249,958	\$ 89,740	\$ (160,218)
Training activities	11,819	3,978	(7,841)
Subtotal, salaries and benefits	261,777	93,718	(168,059)
Materials and supplies			
Training activities ⁴	201	201	-
Subtotal, materials and supplies	201	201	-
Total direct costs	261,978	93,919	(168,059)
Indirect costs	9,529	3,418	(6,111)
Total program costs	<u>\$ 271,507</u>	97,337	<u>\$ (174,170)</u>
Less amount paid by the State ²		(271,507)	
Amount paid in excess of allowable costs		<u>\$ (174,170)</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 441,729	\$ 109,898	\$ (331,831)
Training activities	4,311	1,067	(3,244)
Total direct costs	446,040	110,965	(335,075)
Indirect costs	19,135	4,760	(14,375)
Total direct and indirect costs	465,175	115,725	(349,450)
Less late filing penalty ⁵	-	(6,565)	(6,565)
Total program costs	<u>\$ 465,175</u>	109,160	<u>\$ (356,015)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 109,160</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 423,385	\$ 113,166	\$ (310,219)
Training activities	328	-	(328)
Total direct costs	423,713	113,166	(310,547)
Indirect costs	21,567	5,760	(15,807)
Total direct and indirect costs	<u>\$ 445,280</u>	118,926	<u>\$ (326,354)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 118,926</u>	
<u>July 1, 2013, through June 30, 2014</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 465,085	\$ 183,614	\$ (281,471)
Training activities	1,994	144	(1,850)
Total direct costs	467,079	183,758	(283,321)
Indirect costs	25,082	9,868	(15,214)
Total direct and indirect costs	<u>492,161</u>	193,626	<u>(298,535)</u>
Less amount paid by the State ²		(1,000)	
Allowable costs claimed in excess of amount paid		<u>\$ 192,626</u>	
<u>July 1, 2014, through June 30, 2015</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 473,811	\$ 190,411	\$ (283,400)
Total direct costs	473,811	190,411	(283,400)
Indirect costs	25,301	10,168	(15,133)
Total direct and indirect costs	<u>\$ 499,112</u>	200,579	<u>\$ (298,533)</u>
Less amount paid by the State ²		(1,000)	
Allowable costs claimed in excess of amount paid		<u>\$ 199,579</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>Summary: July 1, 1999, through June 30, 2008; July 1, 2010 through June 30, 2012; and July 1, 2013, through June 30, 2015</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 3,539,492	\$ 1,271,211	\$ (2,268,281)
Training activities	27,145	7,008	(20,137)
Subtotal, salaries and benefits	<u>3,566,637</u>	<u>1,278,219</u>	<u>(2,288,418)</u>
Materials and supplies			
Training activities ⁴	201	201	-
Subtotal, materials and supplies	<u>201</u>	<u>201</u>	<u>-</u>
Total direct costs	3,566,838	1,278,420	(2,288,418)
Indirect costs	<u>174,040</u>	<u>64,581</u>	<u>(109,459)</u>
Total direct and indirect costs	3,740,878	1,343,001	(2,397,877)
Less allowable costs that exceed costs claimed ³	-	(655)	(655)
Less late filing penalty ⁵	-	<u>(6,565)</u>	<u>(6,565)</u>
Total program costs	<u>\$ 3,740,878</u>	1,335,781	<u>\$ (2,405,097)</u>
Less amount paid by the State ²		<u>(1,841,150)</u>	
Amount paid in excess of allowable costs		<u>\$ (505,369)</u>	

¹ See the Finding and Recommendation section.

² Payment amount current as of February 14, 2018.

³ GC section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2002-03.

⁴ The district did not apply the indirect cost rate to claimed materials and supplies costs for FY 2007-08. After review, we found that an additional \$7 should have been claimed, and those costs are allowable.

⁵ The district filed its FY 2010-11 annual reimbursement claim for \$50,079 by the due date specified in GC section 17560, and amended it to \$455,175 after the due date. Pursuant to GC section 17568, the State assessed a late filing penalty equal to 10% of allowable costs that exceed the timely filed claim amount, not to exceed \$10,000.

Finding and Recommendation

**FINDING —
Overstated salaries
and benefits and
related indirect costs**

The district claimed \$3,566,637 in salaries and benefits for the audit period. We found that \$1,278,219 is allowable and \$2,288,418 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for non-mandated activities. Unallowable related indirect costs total \$109,466.

The district overstated salaries and benefits because it misinterpreted the program’s parameters and guidelines requirement that it maintain contemporaneous source documentation to support claimed costs, and claimed non-reimbursable activities during the teacher evaluation process.

The following table summarizes the unallowable salaries and benefits and related indirect costs by fiscal year:

Fiscal Year	Salaries and Benefits			Related Indirect Costs	
	Amount Claimed	Amount Allowable	Audit Adjustment	Indirect Cost Rate	Indirect Costs Adjustment
1999-2000	\$ 150,761	\$ 63,709	\$ (87,052)	5.08%	\$ (4,423)
2000-01	161,720	66,527	(95,193)	4.43%	(4,217)
2001-02	156,576	68,013	(88,563)	5.55%	(4,915)
2002-03	69,456	70,066	610	7.43%	45
2003-04	185,394	72,656	(112,738)	5.63%	(6,347)
2004-05	173,075	76,996	(96,079)	5.38%	(5,169)
2005-06	245,921	81,191	(164,730)	5.01%	(8,253)
2006-07	351,314	87,043	(264,271)	3.61%	(9,540)
2007-08	261,777	93,718	(168,059)	3.64%	(6,118)
2010-11	446,040	110,965	(335,075)	4.29%	(14,375)
2011-12	423,713	113,166	(310,547)	5.09%	(15,807)
2013-14	467,079	183,758	(283,321)	5.37%	(15,214)
2014-15	473,811	190,411	(283,400)	5.34%	(15,133)
Total	\$ 3,566,637	\$ 1,278,219	\$ (2,288,418)		\$ (109,466)

Supporting Time Documents

For FY 1999-2000 through FY 2005-06, the district reported an average estimated time spent (in minutes) on the evaluation activities. Within these time documents, the evaluators did not identify the teachers who were evaluated. In addition, the time documents were not collected contemporaneously as they were dated and signed in March 2006.

For FY 2006-07, the district did not provide their evaluator time documents to support the time study summary. Therefore, we could not verify whether the district used similar time documents in FY 1999-2000 through FY 2005-06 to those used for FY 2006-07.

For FY 2007-08, FY 2010-11, FY 2011-12, FY 2013-14, and FY 2014-15, the district recorded actual time spent on evaluation activities for specific employees being evaluated throughout the year. We used these time documents to calculate an average time allotment, and applied it to those evaluators on the completed evaluation list who did not submit a time document for each fiscal year.

The district's time documents recorded the time that it took district evaluators to perform eight main activities within the teacher evaluation process. The district evaluated permanent, probationary, and temporary certificated instructional employees. Time increments for the following five activities described in the district's time documents are not reimbursable:

- Conducting a pre-assessment conference with the certificated staff member to review their goals and objectives;
- Conducting a pre-observation conference with the certificated staff member;
- Conducting a post-observation conference with the certificated staff member;
- Conducting a final evaluation conference with the certificated staff member; and
- Discussing Standardized Testing and Reporting results and how to improve instructional abilities with the certificated staff member outside of the activities identified.

We determined that the time spent on the following three activities is reimbursable:

- Classroom observations (formal and informal);
- Writing a report regarding observations; and
- Writing the final evaluation report.

After we removed the unallowable activities reported by the district, the district's contemporaneous time records show the following averages:

FY 2007-08

- 1.97 hours for each permanent employee evaluation
- 2.63 hours for each probationary employee evaluation
- 2.74 hours for each temporary employee evaluation

FY 2010-11

- 2.15 hours for each permanent employee evaluation
- 1.73 hours for each probationary employee evaluation
- 1.73 hours for each temporary employee evaluation

FY 2011-12

- 1.86 hours for each permanent employee evaluation
- 2.79 hours for each probationary employee evaluation
- 4.58 hours for each temporary employee evaluation

FY 2013-14

- 2.95 hours for each permanent employee evaluation
- 3.40 hours for each probationary employee evaluation
- 3.40 hours for each temporary employee evaluation

FY 2014-15

- 5.35 hours for each permanent employee evaluation
- 4.86 hours for each probationary employee evaluation

Completed Evaluations

The district's Human Resources Department assembled a master list of evaluations for FY 2007-08, FY 2010-11, FY 2011-12, FY 2013-14, and FY 2014-15. These lists are the basis of support for the total evaluation population for the audit period.

We reviewed the completed evaluation list for each fiscal year to ensure that only eligible evaluations were counted for reimbursement. The program's parameters and guidelines allow reimbursement for evaluations conducted for certificated instructional personnel who perform the requirements of education programs mandated by state or federal law during specific evaluation periods. The parameters and guidelines also allow reimbursement once per year for evaluations conducted for probationary employees, and every other year for permanent employees.

The following table shows the number of evaluations that are not reimbursable under the mandated program:

<u>Fiscal Year</u>	<u>Number of Completed Evaluations</u>		
	<u>District- Provided</u>	<u>Audited</u>	<u>Difference</u>
2007-08	587	498	(89)
2010-11	858	685	(173)
2011-12	835	645	(190)
2013-14	917	741	(176)
2014-15	529	482	(47)
Total	<u>3,726</u>	<u>3,051</u>	<u>(675)</u>

The following is a list of the 675 evaluations that were excluded for the tested period:

- Certificated employees with non-instructional job classifications (i.e., psychologists, nurses, counselors, etc.) (505);
- Evaluations of employees at preschools and charter schools (84);
- Teacher evaluations claimed multiple times in one school year (14);
- Permanent biannual teacher evaluations claimed every year rather than every other year (24);
- Evaluations removed by the district from the population (31) and evaluations with incomplete information related to the date of the evaluation (3); and

- Evaluations we requested during testing that the district was unable to locate (14).

Productive Hourly Rates

The district calculated an average PHR for FY 1999-2000 through FY 2005-06, FY 2010-11, FY 2011-12, FY 2013-14, and FY 2014-15. For FY 2006-07 and FY 2007-08, the district calculated each individual's PHR rather than an average.

As the district provided its first full list of completed evaluations beginning with FY 2007-08, we tested the PHRs for only the last five fiscal years of the audit period. We determined that the district's claimed PHRs were overstated. The district used productive hours ranging from as low as 660 to a high of 1,400 hours for FY 2011-12; and as low as 1,494 to a high of 1,574 hours for FY 2013-14. The district did not provide any documentation to support how these hours were computed. Therefore, we recalculated the PHRs based on the payroll and benefits rate data, and actual productive hours as identified in the salary schedules provided by the district. We then applied the recalculated rates to the number of allowable evaluations and allowable hours (or average hours) per evaluation.

The following table summarizes the claimed and recalculated average PHRs:

Fiscal Year	Average PHR Claimed	Average PHR Recalculated	Audit Adjustment
2010-11	\$ 93.44	\$ 78.09	\$ (15.35)
2011-12	\$ 93.39	\$ 79.37	\$ (14.02)
2013-14	\$ 89.89	\$ 79.89	\$ (10.00)
2014-15	\$ 87.95	\$ 78.38	\$ (9.57)

Per the SCO's Mandated Cost Manual, school districts may use one of the following methods to compute PHRs:

- The actual annual productive hours for each employee;
- The weighted-average annual productive hours for each job title; or
- 1,800 annual productive hours for all employees.

The manual also states, "If actual annual productive hours or weighted-average annual productive hours for each job title is chosen, the claimant must maintain documentation of how these hours were computed."

Calculation of Allowable Evaluation Costs

To arrive at allowable salaries and benefits for evaluation activities for FY 2007-08, FY 2010-11, FY 2011-12, FY 2013-14, and FY 2014-15, we multiplied the number of allowable evaluations by allowable hours (or average hours) per evaluation and the allowable PHRs.

For FY 1999-2000 through FY 2006-07, we used the allowable evaluation costs in FY 2007-08 as the base year. We applied an implicit price deflator to total allowable evaluation activities costs in FY 2007-08 to determine allowable evaluation activities costs for FY 1999-2000 through FY 2006-07.

The following table summarizes the audit adjustments related to evaluation activities by fiscal year and the related indirect costs:

Fiscal Year	Evaluation Activities			Related Indirect Costs	
	Amount Claimed	Amount Allowable	Audit Adjustment	Indirect Cost Rate	Indirect Costs Adjustment
1999-2000	\$ 150,761	\$ 63,709	\$ (87,052)	5.08%	\$ (4,422)
2000-01	161,720	66,527	(95,193)	4.43%	(4,217)
2001-02	156,576	68,013	(88,563)	5.55%	(4,915)
2002-03	69,456	70,066	610	7.43%	45
2003-04	185,394	72,656	(112,738)	5.63%	(6,347)
2004-05	173,075	76,996	(96,079)	5.38%	(5,169)
2005-06	245,921	81,191	(164,730)	5.01%	(8,253)
2006-07	342,621	85,224	(257,397)	3.61%	(9,292)
2007-08	249,958	89,740	(160,218)	3.64%	(5,832)
2010-11	441,729	109,898	(331,831)	4.29%	(14,236)
2011-12	423,385	113,166	(310,219)	5.09%	(15,790)
2013-14	465,085	183,614	(281,471)	5.37%	(15,115)
2014-15	473,811	190,411	(283,400)	5.34%	(15,134)
Total	\$ 3,539,492	\$ 1,271,211	\$ (2,268,281)		\$ (108,677)

Calculation of Allowable Training Costs

The district claimed total training costs of \$27,145 for the audit period. We found that \$7,008 in training costs is reimbursable under the mandate and \$20,137 is not reimbursable. The costs are unallowable for the following reasons:

- The district did not provide sufficient documentation (i.e., sign-in sheets, agendas) to support the costs related to the one-time activity of training staff on the implementation of reimbursable activities listed in the parameters and guidelines;
- The district did not properly calculate the time related to training staff or attending a training class required to perform the evaluations. Some of the training/meeting agendas included non-mandate-related topics. Therefore, we recalculated the time (in hours) that was related to the Stull Act Program for each fiscal year of the audit period;
- The district claimed several employees who attended a training class after their first year of reimbursement. Any costs for other training classes claimed for the same employees in subsequent years are unallowable;
- The district claimed certain job classifications (i.e., Internal Auditor, Director of Finance, Public Information Officer, etc.) that are not required to perform the evaluations; and

- The district used incorrect PHRs for each employee claimed. Therefore, adjustments were made to PHRs for each employee who received training and/or provided the training.

The following table summarizes audit adjustments to salaries and benefits for training costs by fiscal year, and the related indirect costs:

Fiscal Year	Training Activities			Related Indirect Costs	
	Amount Claimed	Amount Allowable	Audit Adjustment	Indirect Cost Rate	Indirect Costs Adjustment
2006-07	\$ 8,693	\$ 1,819	\$ (6,874)	3.61%	\$ (248)
2007-08	11,819	3,978	(7,841)	3.64%	(286)
2010-11	4,311	1,067	(3,244)	4.29%	(139)
2011-12	328	-	(328)	5.09%	(17)
2013-14	1,994	144	(1,850)	5.37%	(99)
Total	<u>\$ 27,145</u>	<u>\$ 7,008</u>	<u>\$ (20,137)</u>		<u>\$ (789)</u>

Section IV.A.1 of the parameters and guidelines states that the following is reimbursable:

Evaluate and assess the performance of certificated instructional employees that perform the requirements of educational programs mandated by state or federal law as it reasonably relates to the instructional techniques and strategies used by the employee and the employee's adherence to curricular objectives.

Reimbursement for this activity is limited to:

- reviewing the employee's instructional techniques and strategies and adherence to curricular objectives, and
- including in the written evaluation of the certificated instructional employees the assessment of these factors during the following evaluation periods:
 - once each year for probationary certificated employees;
 - every other year for permanent certificated employees; and
 - beginning January 1, 2004, every five years for certificated employees with permanent status who have been employed at least ten years with the school district, are highly qualified, and whose previous evaluation rated the employee as meeting or exceeding standards, if the evaluator and certificated employee being evaluated agree.

Section IV.A.2 of the parameters and guidelines states that the following is reimbursable:

Evaluate and assess the performance of certificated instructional employees that teach reading, writing, mathematics, history/social science, and science in grades 2 to 11 as it reasonably relates to the progress of pupils towards the state adopted academic content standards as measured by state adopted assessment tests.

Reimbursement for this activity is limited to:

- a. reviewing the results of the Standardized Testing and Reporting test as it reasonably relates to the performance of those certificated employees that teach reading, writing, mathematics, history/social science, and science in grades 2 to 11, and
- b. Including in the written evaluation of those certificated employees the assessment of the employee's performance based on the Standardized Testing and Reporting results for the pupils they teach during the evaluation periods specified in Education Code section 44664, and described below:
 - o once each year for probationary certificated employees;
 - o every other year for permanent certificated employees; and
 - o beginning January 1, 2004, every five years for certificated employees with permanent status who have been employed at least ten years with the school district, are highly qualified, and whose previous evaluation rated the employee as meeting or exceeding standards, if the evaluator and certificated employee being evaluated agree.

Section IV.C of the parameters and guidelines states that the district may train staff on implementing the reimbursable activities listed in Section IV of the parameters and guidelines. This is a one-time activity for each employee.

Section IV of the parameters and guidelines also states:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Recommendation

Commencing in FY 2015-16, the district elected to participate in a block grant program, pursuant to GC section 17581.6, in lieu of filing annual mandated cost claims. If the district chooses to opt out of the block grant program, we recommend that the district follow the mandated program claiming instructions and parameters and guidelines and ensure that claimed costs include only eligible costs, are based on actual costs, and are supported by contemporaneous source documentation.

Other Issue

OTHER ISSUE— Overpayment of claims

On May 23, 2018, we received an email response to the draft audit report from Marichi Valle, Manager, Business Support Services. The response did not address the finding; rather, the district provided a comment related to the overpayment of claims for the audit period.

Our audit found that \$1,335,781 is allowable. The State paid the district \$1,841,150 for the audit period, resulting in an over-payment of \$505,369. The district requested that the SCO reduce the payment amount in the report to \$1,335,781, which is the allowable amount.

The district's response and SCO comment is as follows:

District's Response

As discussed in our exit meeting, we're questioning about the \$1.8M that was applied and netted against the District's onetime mandated funding. Per audit, it was determined that the total allowable claim was only \$1,335,571.00, however, the report reflected that the District got overpaid by \$505,369.00. Please correct the total amount paid by the State to reflect exactly the total allowable claim of \$1,335,571.00 to avoid unnecessary confusion.

SCO Comment

The Summary of Program Costs (Schedule) remains unchanged. The district incorrectly identified the allowable costs as \$1,335,571, rather than \$1,335,781. An analyst from the SCO's LGPSD will address the district's overpayment issue separate from this audit report.

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