

OAKLAND UNIFIED SCHOOL DISTRICT

Audit Report

THE STULL ACT PROGRAM

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

*July 1, 2004, through June 30, 2008;
and July 1, 2010, through June 30, 2012*



BETTY T. YEE
California State Controller

August 2019



BETTY T. YEE
California State Controller

August 16, 2019

Kyla Johnson-Trammell, Ed.D., Superintendent
Oakland Unified School District
1000 Broadway, Suite 680
Oakland, CA 94607

Dear Dr. Johnson-Trammell:

The State Controller's Office (SCO) audited the costs claimed by the Oakland Unified School District for the legislatively mandated The Stull Act Program for the period of July 1, 2004, through June 30, 2008; and July 1, 2010, through June 30, 2012. 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 has expired.

The district claimed \$959,224 for the mandated program. Our audit found that \$482,397 is allowable and \$476,827 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for unsupported costs. The State paid the district \$797,346.

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

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

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/as

cc: Aimee Eng, President, Board of Education
Oakland Unified School District
Curtiss Sarikey, Chief of Staff
Oakland Unified School District
Preston Thomas, Chief Systems and Services Officer
Oakland Unified School District
Kayla Le, CPA, Interim Controller
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Oakland Unified School District for the legislatively mandated The Stull Act Program for the period of July 1, 2004, through June 30, 2008; and July 1, 2010, through June 30, 2012. 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 has expired.

The district claimed \$959,224 for the mandated program. Our audit found that \$482,397 is allowable and \$476,827 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for unsupported costs. The State paid the district \$797,346.

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, the 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 (California 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 (California 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 California Education Code section 44664. The additional

evaluations shall last until the employee achieves a positive evaluation, or is separated from the school district (California 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 The 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 July 1, 2004, through June 30, 2008; and July 1, 2010, through June 30, 2012.

To achieve our objective, we:

- Reviewed the annual mandated cost claims filed by the district for the audit period and identified the material cost components of each claim as salaries and benefits, and indirect costs. Determined whether there were any errors or unusual or unexpected variances from year to year. 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 key district staff. Discussed the claim preparation process with district staff to determine what information was obtained, who obtained it, and how it was used;
- Reviewed supporting time documentation for the entire audit period. The district provided contemporaneous time documents for each of the audited years. Using these records, we calculated an actual time allotment for permanent, probationary, and temporary employees in the audit period;
- After scheduling the time records, we determined that the district performed 3,496 evaluations for the audit period. Of that amount, we removed 54 evaluations from the population, as they were duplicated entries in the same year. Using a random number generator, we randomly selected a sample and tested 133 evaluations for the audit period. During testing, we identified 69 errors in the sample that we removed from the allowable population of evaluations (see the Finding and Recommendation section);
- Traced a sample of employees' claimed productive hourly rates to supporting documentation from the district's payroll system. For fiscal year (FY) 2004-05, we reviewed 24 out of 66 employees; for FY 2011-12, we reviewed 17 out of 86 employees. Based on the results of our review, we found immaterial variances; however, the rates were properly supported. We applied the claimed productive hourly rate for each evaluator to every allowable evaluation conducted by that evaluator;

- Compared the 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; and
- Reviewed potential sources of offsetting revenues and reimbursements for the audit period. We inquired with district staff and reviewed the district's single audit reports (with accompanying financial statements) for other sources of funding.

GC sections 12410, 17558.5, and 17561 provide the legal authority to conduct this audit. 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

As a result of performing the audit procedures, we found that the district did not comply with the requirements described in our audit objective. We found that the district did not claim costs that were funded by other sources; however, it did claim unsupported and ineligible costs, as quantified in the Schedule and described in the Finding and Recommendation section of this audit report.

For the audit period, Oakland Unified School District claimed \$959,224 for costs of the legislatively mandated The Stull Act Program. Our audit found that \$482,397 is allowable and \$476,827 is unallowable. The payment information is as follows:

- For the FY 2004-05 through FY 2007-08 and FY 2010-11 claims, the State paid the district \$797,346. Our audit found that \$385,010 is allowable.
- For FY 2011-12 claim, the State made no payment to the district. Our audit found that \$97,387 is allowable. The State will pay that amount, contingent upon available appropriations.

Following issuance of this audit report, the SCO's Local Government Programs and Services Division will notify the district of the adjustment to its claims 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 The Stull Act Program.

**Views of
Responsible
Officials**

We discussed our audit results with the district's representative during an exit conference conducted on May 31, 2019. Kayla Le, Interim Controller, agreed with the audit results. On July 10, 2019, we provided Ms. Le with a preliminary copy of the final report. Ms. Le responded that we could issue the report as final.

Restricted Use

This audit report is solely for the information and use of Oakland Unified School District, the Alameda 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 audit report, which is a matter of public record, and is available on the SCO website at www.sco.ca.gov.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

August 16, 2019

Schedule—
Summary of Program Costs
July 1, 2004, through June 30, 2008;
and July 1, 2010, through June 30, 2012

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2004, through June 30, 2005</u>			
Direct costs:			
Salaries and benefits:			
Evaluation activities	\$ 206,060	\$ 16,685	\$ (189,375)
Total direct costs	206,060	16,685	(189,375)
Indirect costs	7,109	576	(6,533)
Total program costs	<u>\$ 213,169</u>	17,261	<u>\$ (195,908)</u>
Less amount paid by the State ²		(213,169)	
Amount paid in excess of allowable costs claimed		<u>\$ (195,908)</u>	
<u>July 1, 2005, through June 30, 2006</u>			
Direct costs:			
Salaries and benefits:			
Evaluation activities	\$ 90,438	\$ 61,533	\$ (28,905)
Total direct costs	90,438	61,533	(28,905)
Indirect costs	5,869	3,993	(1,876)
Total program costs	<u>\$ 96,307</u>	65,526	<u>\$ (30,781)</u>
Less amount paid by the State ²		(96,307)	
Amount paid in excess of allowable costs claimed		<u>\$ (30,781)</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries and benefits:			
Evaluation activities	\$ 119,100	\$ 70,278	\$ (48,822)
Total direct costs	119,100	70,278	(48,822)
Indirect costs	7,479	4,413	(3,066)
Total program costs	<u>\$ 126,579</u>	74,691	<u>\$ (51,888)</u>
Less amount paid by the State ²		(126,579)	
Amount paid in excess of allowable costs claimed		<u>\$ (51,888)</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries and benefits:			
Evaluation activities	\$ 116,671	\$ 73,415	\$ (43,256)
Total direct costs	116,671	73,415	(43,256)
Indirect costs	7,047	4,434	(2,613)
Total program costs	<u>\$ 123,718</u>	77,849	<u>\$ (45,869)</u>
Less amount paid by the State ²		(123,718)	
Amount paid in excess of allowable costs claimed		<u>\$ (45,869)</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries and benefits:			
Evaluation activities	\$ 225,894	\$ 142,325	\$ (83,569)
Total direct costs	225,894	142,325	(83,569)
Indirect costs	11,679	7,358	(4,321)
Total program costs	<u>\$ 237,573</u>	149,683	<u>\$ (87,890)</u>
Less amount paid by the State ²		(237,573)	
Amount paid in excess of allowable costs claimed		<u>\$ (87,890)</u>	
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries and benefits:			
Evaluation activities	\$ 155,279	\$ 93,417	\$ (61,862)
Total direct costs	155,279	93,417	(61,862)
Indirect costs	6,599	3,970	(2,629)
Total program costs	<u>\$ 161,878</u>	97,387	<u>\$ (64,491)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 97,387</u>	
<u>Summary: July 1, 2004, through June 30, 2008; and July 1, 2010, through June 30, 2012</u>			
Direct costs:			
Salaries and benefits:			
Evaluation activities	\$ 913,442	\$ 457,653	\$ (455,789)
Total direct costs	913,442	457,653	(455,789)
Indirect costs	45,782	24,744	(21,038)
Total program costs	<u>\$ 959,224</u>	482,397	<u>\$ (476,827)</u>
Less amount paid by the State ²		(797,346)	
Amount paid in excess of allowable costs claimed		<u>\$ (314,949)</u>	

¹ See the Finding and Recommendation section.

² Payment amount current as of July 30, 2019.

Finding and Recommendation

FINDING — Overstated salaries, benefits, and related indirect costs

The district claimed \$913,442 in salaries and benefits for the audit period. We found that \$457,653 is allowable and \$455,789 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for costs not supported with contemporaneous source documentation. Unallowable related indirect costs total \$21,038, for a total audit finding of \$476,827.

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.

The following table summarizes the unallowable salaries and benefits, and related indirect costs:

Fiscal Year	Salaries and Benefits			Related Indirect Costs		Total Audit Adjustment
	Amount Claimed	Amount Allowable	Audit Adjustment	Indirect Cost Rate	Indirect Cost Adjustment ¹	
2004-05	\$ 206,060	\$ 16,685	\$ (189,375)	3.45%	\$ (6,533)	\$ (195,908)
2005-06	90,438	61,533	(28,905)	6.49%	(1,876)	(30,781)
2006-07	119,100	70,278	(48,822)	6.28%	(3,066)	(51,888)
2007-08	116,671	73,415	(43,256)	6.04%	(2,613)	(45,869)
2010-11	225,894	142,325	(83,569)	5.17%	(4,321)	(87,890)
2011-12	155,279	93,417	(61,862)	4.25%	(2,629)	(64,491)
	<u>\$ 913,442</u>	<u>\$ 457,653</u>	<u>\$ (455,789)</u>		<u>\$ (21,038)</u>	<u>\$ (476,827)</u>

¹ Immaterial differences due to rounding

Time Log Activities

The time logs captured the time it took district evaluators to perform nine activities within the teacher evaluation process. The district evaluated permanent, probationary, and temporary certificated instructional teachers. The time log results reported time for the following activities that are reimbursable under the program's parameters and guidelines:

- Evaluating the teacher's instructional techniques/strategies and adherence to curricular objectives;
- Writing up the evaluation of the instructional techniques/strategies and adherence to curricular objectives;
- Reviewing standardized testing and reporting test results related to the performance of a teacher teaching reading, writing, math, history/social science or science in grades 2 through 11;
- Writing up the evaluation of the teacher's performance based on the standardized testing and reporting results for the pupils they teach;
- Conducting an additional evaluation/assessment of the employees performance (unsatisfactory evaluations only);
- Writing up the additional evaluation/assessment (unsatisfactory evaluations only);

- Transmitting a copy of the written evaluation to the employee (unsatisfactory evaluations only);
- Attaching the employee's written response to the evaluation to employee's personnel file (unsatisfactory evaluations only); and
- Meeting with the employee to discuss the additional evaluation (unsatisfactory evaluations only).

In each fiscal year under audit, district evaluators gathered actual time records for specific employees being evaluated throughout the year. The district provided time documentation to support the time claimed for all six fiscal years under audit.

We reviewed the contemporaneous time logs provided for the audit period and noted that they provided sufficient detail to compile a listing of the certificated employees evaluated in these years, and the time associated with those evaluations was applied to each line item individually.

Our review of the time logs found many instances of excessive daily time (i.e., an evaluator claiming evaluation activities in excess of eight hours a day) and estimated daily time occurring throughout the entire audit period, but most notably in FY 2004-05. Per the program's parameters and guidelines, only actual time may be claimed; therefore, we did not allow the excessive or estimated time increments.

Completed Evaluations

We compiled a listing of employee evaluations using the time logs provided as support for the reimbursable components of the mandate. Collectively, this data was the basis of support for the total evaluation population for the audit period.

The parameters and guidelines allow reimbursement for evaluations conducted of certificated instructional personnel who perform the requirements of education programs mandated by state or federal law during specific evaluation periods. We reviewed teacher evaluation lists to ensure that only eligible evaluations were counted for reimbursement, and found that 123 were not reimbursable for the following reasons:

- Teacher evaluations claimed multiple times in one school year (54); and
- Evaluations requested during sample testing that the district was unable to locate (69).

The following table summarizes our audit results:

Fiscal Year	Evaluations Documented in Time Logs	Duplicated in the Same Year	Sample Evaluations Not Found by the District	Total Allowable Evaluations
2004-05	1,223	(24)	(29)	1,170
2005-06	360	(8)	(8)	344
2006-07	525	(9)	(8)	508
2007-08	377	(9)	(7)	361
2010-11	562	(1)	(9)	552
2011-12	449	(3)	(8)	438
Total	3,496	(54)	(69)	3,373

Calculation of Allowable Evaluation Costs

To arrive at allowable salaries and benefits for “evaluation activities” for each fiscal year in the audit period, we multiplied the allowable time for each evaluation by the claimed productive hourly rate for each evaluator performing the program’s reimbursable activities.

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

1. 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 (Ed. Code, § 44662, subd. (b), as amended by Stats. 1983, ch. 498.). (*Reimbursement period begins July 1, 1997.*)

Reimbursement for this activity is limited to:

- a. Reviewing the employee’s instructional techniques and strategies and adherence to curricular objectives, and
- b. 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 (as defined in 20 U.S.C. § 7801), 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 activities are reimbursable:

2. 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. (Ed. Code, § 44662, subd. (b), as amended by Stats. 1999, ch. 4.) (*Reimbursement period begins March 15, 1999.*)

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 (as defined in 20 U.S.C. § 7801), and whose previous evaluation rated the employee as meeting or exceeding standards, if the evaluator and certificated employee being evaluated agree.

Section IV of the parameters and guidelines 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 2012-13, the district elected to receive mandate block grant funding pursuant to GC section 17581.6, in lieu of submitting annual mandated cost claims to the SCO for reimbursement. If the district chooses to opt out of receiving mandate block grant funding, we recommend that the district:

- Follow the mandated program claiming instructions and the parameters and guidelines when preparing its reimbursement claims; and
- Ensure that claimed costs include only eligible costs, are based on actual costs, and are supported by contemporaneous source documentation.

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