

ROWLAND UNIFIED SCHOOL DISTRICT

Audit Report

THE STULL ACT PROGRAM

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

*July 1, 2006, through June 30, 2008;
and July 1, 2010, through June 30, 2015*



BETTY T. YEE
California State Controller

September 2018



BETTY T. YEE
California State Controller

September 28, 2018

Julie Mitchell, Ed.D., Superintendent
Rowland Unified School District
1830 Nogales Street
Rowland Heights, CA 91748

Dear Dr. Mitchell:

The State Controller's Office (SCO) audited the costs claimed by the Rowland Unified School District for the legislatively mandated Stull Act Program for the period of July 1, 2006, through June 30, 2008; and July 1, 2010, 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 has expired.

The district claimed \$763,170 for the mandated program. Our audit found that \$405,276 is allowable (\$410,891 less a \$5,615 penalty for filing a late claim) and \$357,894 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for unsupported costs. The State paid the district \$200,146. 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.

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 State Mandates (Commission). Pursuant to the Commission's regulations, outlined in Title 2, *California Code of Regulations*, Section 1185.1, subdivision (c), 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than three years following the date of this report, regardless of whether this report is subsequently supplemented, superseded, or otherwise amended.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/IRCForm.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/lis

cc: Dennis Bixler, Assistant Superintendent, Human Resources
Rowland Unified School District
Aubrey Craig, Director, Fiscal Services
Rowland Unified School District
Keith D. Crafton, Director
Business Advisory Services
Los Angeles County Office of Education
Caryn Moore, Director
School Fiscal Services Division
California Department of Education
Amy Tang-Paterno, Education Fiscal Services Consultant
Government Affairs Division
California Department of Education
Jeff Bell, Program Budget Manager
Education Systems Unit
California Department of Finance
Edward Hansen, Principal Program Budget Analyst
Education Systems Unit
California Department of Finance
Anita Dagan, Manager
Local Government Programs and Services Division
State Controller's Office

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	3
Follow-up on Prior Audit Findings	3
Views of Responsible Officials	3
Restricted Use	4
Schedule—Summary of Program Costs	5
Finding and Recommendation	8

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Rowland Unified School District for the legislatively mandated Stull Act Program for the period of July 1, 2006, through June 30, 2008; and July 1, 2010, 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 has expired.

The district claimed \$763,170 for the mandated program. Our audit found that \$405,276 is allowable (\$410,891 less a \$5,615 penalty for filing a late claim) and \$357,894 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for unsupported costs. The State paid the district \$200,146.

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 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, 2006, through June 30, 2008; and July 1, 2010, through June 30, 2015.

To achieve our audit 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 any 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, and discussed the claim preparation process with district staff to determine what information was obtained, who obtained it, and how it was used;
- Requested time documentation to support the salary and benefits costs claimed for the entire audit period. The district only maintained complete contemporaneous time documents for fiscal year (FY) 2006-07, FY 2007-08, and FY 2010-11. We calculated the allowable salaries and benefits costs for those three fiscal years. We used the allowable evaluation activity costs for FY 2010-11, and applied an Implicit Price Inflation to determine the allowable salaries and benefits for FY 2011-12 through FY 2014-15;
- Requested lists of employees evaluated for the entire audit period. The district did not maintain records to show specific employees evaluated during the audit period. We did not test specific employees as part of a random sample for this engagement;
- Judgmentally selected a non-statistical sample of employees' claimed productive hourly rates (PHRs) to supporting documentation from the district's payroll system. For FY 2010-11, we tested eight out of 35 claimed employees. We noted immaterial variances; therefore, we accepted the rates as claimed for all years under audit; and
- Compared all claimed indirect cost rates to the rates allowed by the California Department of Education. We noted no errors.

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 include assessing the efficiency or effectiveness of program operations. We did not audit the district's financial statements.

Conclusion

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

For the audit period, the Rowland Unified School District claimed \$763,170 for costs of the legislatively mandated Stull Act Program. Our audit found that \$405,276 is allowable (\$410,891 less a \$5,615 penalty for filing a late claim) and \$357,894 is unallowable:

- For the FY 2006-07 and FY 2007-08 claims, the State paid the district \$200,146. Our audit found that \$151,586 is allowable (\$157,201 less a \$5,615 penalty for filing a late claim).
- For the FY 2010-11 through FY 2014-15 claims, the State made no payment to the district. Our audit found that \$253,690 is allowable. The State will pay \$253,690, 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

The district has not resolved the findings noted in our prior audit report, issued March 26, 2010, as described in the Finding.

Views of Responsible Officials

We discussed our audit results with the district's representatives during an exit conference conducted on August 23, 2018. Dennis Bixler, Assistant Superintendent of Human Resources; Alex Flores, Assistant Superintendent of Administrative Services; and Aubrey Craig, Director of Fiscal Services, neither agreed nor disagreed with the audit results. Mr. Craig declined a draft audit report and agreed that we could issue the audit report as final.

Restricted Use

This report is solely for the information and use of the Rowland Unified School District, the Los Angeles County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

September 28, 2018

Schedule—
Summary of Program Costs
July 1, 2006, through June 30, 2008;
and July 1, 2010, through June 30, 2015

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	\$ 104,193	\$ 94,776	\$ (9,417)
Total direct costs	104,193	94,776	(9,417)
Indirect costs	6,898	6,274	(624)
Total program costs	<u>\$ 111,091</u>	101,050	<u>\$ (10,041)</u>
Less amount paid by the State ²		(111,091)	
Amount paid in excess of allowable costs		<u>\$ (10,041)</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 92,754	\$ 52,635	\$ (40,119)
Total direct costs	92,754	52,635	(40,119)
Indirect costs	6,196	3,516	(2,680)
Subtotal	98,950	56,151	(42,799)
Less late filing penalty ³	-	(5,615)	(5,615)
Total program costs	<u>\$ 98,950</u>	50,536	<u>\$ (48,414)</u>
Less amount paid by the State ²		(89,055)	
Amount paid in excess of allowable costs		<u>\$ (38,519)</u>	
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 98,231	\$ 46,123	\$ (52,108)
Total direct costs	98,231	46,123	(52,108)
Indirect costs	5,963	2,800	(3,163)
Total program costs	<u>\$ 104,194</u>	48,923	<u>\$ (55,271)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 48,923</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	\$ 132,350	\$ 47,271	\$ (85,079)
Total direct costs	132,350	47,271	(85,079)
Indirect costs	8,087	2,888	(5,199)
Total program costs	<u>\$ 140,437</u>	50,159	<u>\$ (90,278)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 50,159</u>	
<u>July 1, 2012, through June 30, 2013</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 103,418	\$ 48,148	\$ (55,270)
Total direct costs	103,418	48,148	(55,270)
Indirect costs	5,233	2,436	(2,797)
Total program costs	<u>\$ 108,651</u>	50,584	<u>\$ (58,067)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 50,584</u>	
<u>July 1, 2013, through June 30, 2014</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 103,706	\$ 49,171	\$ (54,535)
Total direct costs	103,706	49,171	(54,535)
Indirect costs	5,175	2,454	(2,721)
Total program costs	<u>\$ 108,881</u>	51,625	<u>\$ (57,256)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 51,625</u>	
<u>July 1, 2014, through June 30, 2015</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 86,412	\$ 49,776	\$ (36,636)
Total direct costs	86,412	49,776	(36,636)
Indirect costs	4,554	2,623	(1,931)
Total program costs	<u>\$ 90,966</u>	52,399	<u>\$ (38,567)</u>
Less amount paid by the State ²		-	
Allowable costs claimed in excess of amount paid		<u>\$ 52,399</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>Summary: July 1, 2006, through June 30, 2008; and July 1, 2010, through June 30, 2015</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 721,064	\$ 387,900	\$ (333,164)
Total direct costs	721,064	387,900	(333,164)
Indirect costs	42,106	22,991	(19,115)
Subtotal	763,170	410,891	(352,279)
Less late filing penalty	-	(5,615)	(5,615)
Total program costs	<u>\$ 763,170</u>	405,276	<u>\$ (357,894)</u>
Less amount paid by the State ²		(200,146)	
Allowable costs claimed in excess of amount paid		<u>\$ 205,130</u>	

¹ See the Finding and Recommendation section.

² Payment amount current as of August 9, 2018.

³ The district filed its FY 2007-08 annual reimbursement claim after the due date specified in GC section 17560. Pursuant to GC section 17568, the State assessed a late filing penalty equal to 10% of allowable costs, not to exceed \$10,000 (for claims filed on or after August 24, 2007).

Finding and Recommendation

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

The district claimed \$721,064 in salaries and benefits for the audit period. During our testing, we found that \$387,900 is allowable and \$333,164 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for costs not supported with contemporaneous source documentation. The error occurred because the district misinterpreted the requirement per the program's parameters and guidelines to maintain records to support claimed costs. Unallowable related indirect costs total \$19,115, for a total audit finding of \$352,279.

We previously audited the district's program claims filed for FY 1997-98 through FY 2005-06. That audit also found that the district did not maintain contemporaneous documentation to support claimed salaries and benefits.

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

Fiscal Year	Salaries and Benefits			Related Indirect Costs		Total Audit Adjustment
	Amount Claimed	Amount Allowable	Audit Adjustment	Indirect Cost Rate	Indirect Cost Adjustment ¹	
2006-07	\$ 104,193	\$ 94,776	\$ (9,417)	6.62%	\$ (624)	\$ (10,041)
2007-08	92,754	52,635	(40,119)	6.68%	(2,680)	(42,799)
2010-11	98,231	46,123	(52,108)	6.07%	(3,163)	(55,271)
2011-12	132,350	47,271	(85,079)	6.11%	(5,199)	(90,278)
2012-13	103,418	48,148	(55,270)	5.06%	(2,797)	(58,067)
2013-14	103,706	49,171	(54,535)	4.99%	(2,721)	(57,256)
2014-15	86,412	49,776	(36,636)	5.27%	(1,931)	(38,567)
	<u>\$721,064</u>	<u>\$387,900</u>	<u>\$(333,164)</u>		<u>\$ (19,115)</u>	<u>\$(352,279)</u>

¹ Immaterial differences due to rounding.

Time Log Activities

The time logs recorded the time that district evaluators spent performing seven activities within the teacher evaluation process. The district evaluated permanent, probationary, and temporary certificated instructional teachers. The time log tracks reported time for the following activities that are reimbursable under the program's parameters and guidelines:

- Evaluate the teacher's instructional techniques/strategies and adherence to curricular objectives;
- Write up the evaluation of the instructional techniques/strategies and adherence to curricular objectives;
- Conduct additional evaluation/assessment of employee performance (unsatisfactory evaluations only);
- Write up the additional evaluation/assessment (unsatisfactory evaluations only);

- Transmit a copy of the written evaluation to the employee (unsatisfactory evaluations only);
- Attach employee's written response to the evaluation to employee's personnel file (unsatisfactory evaluations only); and
- Meet with 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 seven fiscal years under audit. However, the time documents provided for FY 2011-12 through FY 2014-15 are insufficient, as the majority of documents did not include actual time records of evaluated employees. Therefore, we used FY 2010-11 time documents to determine allowable costs for FY 2010-11, and we applied an Implicit Price Inflation model to the FY 2010-11 allowable costs to determine allowable costs for FY 2011-12 through FY 2014-15.

The district was unable to provide a master list of certificated employees evaluated by year. However, we reviewed the contemporaneous time logs for FY 2006-07, FY 2007-08, and FY 2010-11, and noted that they provided sufficient detail to compile a list of certificated employees evaluated in these years. We determined the total time for each allowable evaluation, and applied only the time associated with evaluating an individual employee to each line item.

Completed Evaluations

For the audit period, the district did not maintain a master list of certificated employees evaluated. Therefore, we compiled a list 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.

We reviewed the completed teacher evaluation list for each fiscal year to ensure that only eligible evaluations were counted for reimbursement. The parameters and guidelines allow reimbursement for those evaluations conducted of certificated instructional personnel who perform the requirements of education programs mandated by state or federal law during specific evaluation periods.

The following table shows evaluations that are identified as not reimbursable under the mandated program:

Fiscal Year	Number of Completed Evaluations		
	Documented in Time Logs	Audited	Difference
2006-07	352	334	(18)
2007-08	266	230	(36)
2010-11	209	196	(13)
Totals	827	760	(67)

The following is a list of the 67 evaluations that were excluded from the allowable population:

- Counselors, librarians, nurses, and coordinators, who are not certificated instructional employees (17);
- Evaluations listed on the time records, for which the employee's name could not be identified (6);
- Duplicate teacher evaluations claimed multiple times in one school year (15); and
- Permanent certificated biannual teacher evaluations claimed every year rather than every other year (29).

Calculation of Allowable Evaluation Costs

To arrive at allowable salaries and benefits for "evaluation activities" for FY 2006-07, FY 2007-08, and FY 2010-11, we multiplied the allowable time for each evaluation by the claimed productive hourly rate for each evaluator performing the program's reimbursable activities. After the allowable salaries and benefits costs were determined for FY 2010-11, we used an Implicit Price Inflation to determine allowable costs for FY 2011-12 through FY 2014-15.

We then applied the applicable indirect cost rates to allowable evaluation activities to calculate allowable indirect costs of \$22,991 for this component.

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:

- 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, 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. 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 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.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

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