

HAYWARD 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, 2005; July 1, 2006, through June 30, 2008;
and July 1, 2010, through June 30, 2012*



BETTY T. YEE
California State Controller

June 2017



BETTY T. YEE
California State Controller

June 2, 2017

Lisa Brunner, President, Board of Trustees
Hayward Unified School District
24411 Amador Street
Hayward, CA 94544

Dear Ms. Brunner:

The State Controller's Office audited the costs claimed by Hayward Unified School District for the legislatively mandated Stull Act Program (Chapter 498, Statutes of 1983; and Chapter 4, Statutes of 1999) for the period of July 1, 2004, through June 30, 2005; July 1, 2006, through June 30, 2008; and July 1, 2010, through June 30, 2012.

The district claimed \$803,836 for the mandated program. Our audit found that \$170,517 is allowable (\$174,097 less a \$3,580 penalty for filing a late claim) and \$633,319 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for ineligible and unsupported costs. The State paid the district \$449,610. The amount paid exceeds allowable costs claimed by \$279,093. The State will offset \$279,093 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by telephone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/as

cc: Matt Wayne, Ed.D., Interim Superintendent
Hayward Unified School District
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Hayward Unified School District
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Contents

Audit Report

Summary	1
Background	1
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Restricted Use	3
Schedule—Summary of Program Costs	4
Finding and Recommendation	6

Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Hayward Unified School District for the legislatively mandated Stull Act Program (Chapter 498, Statutes of 1983; and Chapter 4, Statutes of 1999) for the period of July 1, 2004, through June 30, 2005; July 1, 2006, through June 30, 2008; and July 1, 2010, through June 30, 2012.

The district claimed \$803,836 for the mandated program. Our audit found that \$170,517 is allowable (\$174,097 less a \$3,580 penalty for filing a late claim) and \$633,319 is unallowable. The costs are unallowable primarily because the district claimed reimbursement for ineligible and unsupported costs. The State paid the district \$449,610. The amount paid exceeds allowable costs claimed by \$279,093. The State will offset \$279,093 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

Background

Chapter 498, Statutes of 1983, and Chapter 4, Statutes of 1999, added Education Code sections 44660-44665. 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 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 Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

The Commission approved reimbursable activities as follows:

- Evaluate and assess the performance of certificated instructional employees who perform the requirements of educational programs mandated by state or federal laws as it reasonably relates 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).
- Evaluate and assess the performance of certificated instructional employees who teach reading, writing, mathematics, history/social science, and science in grades 2 to 11 as it reasonably relates 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).
- Assess and evaluate 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).

Objectives, Scope, and Methodology

We conducted this performance audit to determine whether costs claimed represent increased costs resulting from the Stull Act Program for the period of July 1, 2004, through June 30, 2005; July 1, 2006, through June 30, 2008; and July 1, 2010, through June 30, 2012.

The legal authority to conduct this audit is provided by Government Code sections 12410, 17558.5, and 17561. We conducted this 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.

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.

The objectives of our audit were to determine whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

To achieve our audit objectives, we:

- Reviewed annual claims filed with SCO to identify any mathematical errors and performed analytical procedures to determine any unusual or unexpected variances from year to year;
- Completed an internal control questionnaire and performed a walkthrough of the claim preparation process to determine what information was used, who obtained it, and how it was obtained;
- Assessed whether computer-processed data provided by the district to support claimed costs was complete, accurate, and reliable;
- Traced listings of employees evaluated and assessed the reimbursability of such employees' evaluations;
- Traced costs claimed to supporting documentation that showed when the costs were incurred, the validity of such costs, and their relation to mandated activities; and
- Traced productive hourly rate calculations for district employees to supporting documentation in the district's payroll system.

Conclusion

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

For the audit period, Hayward Unified School District claimed \$803,836 for costs of the Stull Act Program. Our audit found that \$170,517 is allowable (\$174,097 less a \$3,580 penalty for filing a late claim) and \$633,319 is unallowable.

For the fiscal year (FY) 2004-05 claim, the State paid the district \$100,597. Our audit found that \$32,216 is allowable. The State will offset \$68,381 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2006-07 claim, the State paid the district \$173,859. Our audit found that \$42,206 is allowable. The State will offset \$131,653 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2007-08 claim, the State paid the district \$175,154. Our audit found that \$31,337 is allowable. The State will offset \$143,817 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

For the FY 2010-11 and 2011-12 claims, the State made no payment to the district. Our audit found that \$64,758 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$64,758, contingent upon available appropriations.

Views of Responsible Officials

We discussed our audit results with the district's representatives during an exit conference conducted on May 1, 2017. Kimberleigh Watts, Director of Certificated Personnel; Marie Salta, Lead Credential Technician; and Jia Liu, HR Administrative Analyst, neither agreed nor disagreed with the audit results. Ms. Watts 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 Hayward 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 report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 2, 2017

Schedule—
Summary of Program Costs
July 1, 2004, through June 30, 2005; July 1, 2006, 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	\$ 95,360	\$ 33,599	\$ (61,761)
Total direct costs	95,360	33,599	(61,761)
Indirect costs	6,237	2,197	(4,040)
Subtotal	101,597	35,796	(65,801)
Less late filing penalty ²	-	(3,580)	(3,580)
Total program costs	<u>\$ 101,597</u>	32,216	<u>\$ (69,381)</u>
Less amount paid by the State		(100,597)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (68,381)</u>	
<u>July 1, 2006, through June 30, 2007</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 165,769	\$ 40,242	\$ (125,527)
Total direct costs	165,769	40,242	(125,527)
Indirect costs	8,090	1,964	(6,126)
Total program costs	<u>\$ 173,859</u>	42,206	<u>\$ (131,653)</u>
Less amount paid by the State		(173,859)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (131,653)</u>	
<u>July 1, 2007, through June 30, 2008</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 167,339	\$ 29,939	\$ (137,400)
Total direct costs	167,339	29,939	(137,400)
Indirect costs	7,815	1,398	(6,417)
Total program costs	<u>\$ 175,154</u>	31,337	<u>\$ (143,817)</u>
Less amount paid by the State		(175,154)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (143,817)</u>	

Schedule (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment ¹
<u>July 1, 2010, through June 30, 2011</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 174,521	\$ 31,129	\$ (143,392)
Total direct costs	174,521	31,129	(143,392)
Indirect costs	7,121	1,270	(5,851)
Total program costs	<u>\$ 181,642</u>	32,399	<u>\$ (149,243)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 32,399</u>	
<u>July 1, 2011, through June 30, 2012</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 166,441	\$ 31,389	\$ (135,052)
Total direct costs	166,441	31,389	(135,052)
Indirect costs	5,143	970	(4,173)
Total program costs	<u>\$ 171,584</u>	32,359	<u>\$ (139,225)</u>
Less amount paid by the State		-	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 32,359</u>	
<u>Summary: July 1, 2004, through June 30, 2005; July 1, 2006, through June 30, 2008; and July 1, 2010, through June 30, 2012</u>			
Direct costs:			
Salaries and benefits			
Evaluation activities	\$ 769,430	\$ 166,298	\$ (603,132)
Total direct costs	769,430	166,298	(603,132)
Indirect costs	34,406	7,799	(26,607)
Subtotal	803,836	174,097	(629,739)
Less late filing penalty	-	(3,580)	(3,580)
Total program costs	<u>\$ 803,836</u>	170,517	<u>\$ (633,319)</u>
Less amount paid by the State		(449,610)	
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (279,093)</u>	

¹ See the Finding and Recommendation section.

² The district filed its FY 2004-05 initial reimbursement claim after the due date specified in Government Code section 17560. Pursuant to Government Code section 17561, subdivision (d)(3), the State assessed a late filing penalty equal to 10% of allowable costs, with no maximum penalty amount (for claims filed on or after September 30, 2002).

Finding and Recommendation

FINDING— Overstated salaries and benefits and related indirect costs

The district claimed \$769,430 in salaries and benefits and \$34,406 in related indirect costs for the audit period. We found that \$603,132 in salaries and benefits is unallowable. The costs are unallowable primarily because the district claimed reimbursement for costs not supported by source documentation. Related indirect costs totaled \$26,607.

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

Fiscal Year	Salaries and Benefits			(D)	Total
	(A) Claimed	(B) Allowable	(C) Adjustment [(B)-(A)]	Indirect Costs Adjustments	Audit Adjustments [(C)+(D)]
2004-05	95,360	33,599	(61,761)	(4,040)	(65,801)
2006-07	165,769	40,242	(125,527)	(6,126)	(131,653)
2007-08	167,339	29,939	(137,400)	(6,417)	(143,817)
2010-11	174,521	31,129	(143,392)	(5,851)	(149,243)
2011-12	166,441	31,389	(135,052)	(4,173)	(139,225)
	<u>\$ 769,430</u>	<u>\$ 166,298</u>	<u>\$ (603,132)</u>	<u>\$ (26,607)</u>	<u>\$ (629,739)</u>

Time Support for Reimbursable Activities

For the audit period, the district did not provide contemporaneous time documentation to support reimbursable evaluation activities. However, the district provided evaluations to support that reimbursable activities were performed in every year of the audit period. To support claimed costs, the district provided collective bargaining agreements for the audit period; the agreements stated that one classroom evaluation “shall be a minimum of 30 minutes in length,” and other classroom observations “shall be at least 20 minutes in length.” Further, the district provided documentation that showed that the “traditional” evaluation process has, at a minimum, two observations. Given the information provided, we attributed 50 minutes of observational time to each allowable evaluation. The language was identical for every collective bargaining agreement in place for the audit period. We also interviewed staff members with knowledge of the evaluation process during this time period, and they also confirmed the process described in the agreement.

Completed Evaluations

The district provided individual listings of evaluations for each year of the audit period. These lists identified employees who received evaluations during each reported year. These lists were the basis of support for the total evaluation population for the audit period.

We reviewed the evaluation listings for each fiscal year to ensure that only eligible evaluations were counted for reimbursement. The 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:

Fiscal Year	Number of Completed Evaluations		
	(A) District- Provided	(B) Audited	(C)=(B)-(A) Difference
2004-05	990	515	(475)
2006-07	1,431	613	(818)
2007-08	1,241	481	(760)
2010-11	724	434	(290)
2011-12	750	428	(322)
Total	5,136	2,471	(2,665)

The non-reimbursable evaluations included the following:

- Certificated employees with non-instructional job classifications;
- Teacher evaluations claimed multiple times in one school year;
- Permanent biannual teacher evaluations claimed every year rather than every other year; and
- Evaluations we requested during testing that the district was unable to locate.

Calculation of Allowable Evaluation Costs

For each year of the audit period, we arrived at allowable salaries and benefits for “evaluation activities” by multiplying the number of allowable evaluations by 50 minutes per evaluation and the average of all claimed productive hourly rates.

The following table summarizes allowable evaluation costs by fiscal year:

Fiscal Year	Evaluation Activities		
	(A) Claimed	(B) Allowable	(C)=(B)-(A) Audit Adjustment
2004-05	95,360	33,599	(61,761)
2006-07	165,769	40,242	(125,527)
2007-08	167,339	29,939	(137,400)
2010-11	174,521	31,129	(143,392)
2011-12	166,441	31,389	(135,052)
Total	\$ 769,430	\$ 166,298	\$ (603,132)

The parameters and guidelines (section IV.A.1) state that the following activity 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.

The parameters and guidelines (section IV.A.2) state that the following activity 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:

- 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.

The parameters and guidelines (section IV.C–Training) indicate that the district may train staff on implementing the reimbursable activities listed in Section IV of the parameters and guidelines (one-time activity for each employee).

The parameters and guidelines (section IV–Reimbursable Activities) also state:

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 participate in a block grant program, pursuant to Government Code 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 ensure that claimed costs are based on actual costs, are for activities reimbursable under the parameters and guidelines, and are supported by contemporaneous source documentation.

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