

# **POWAY UNIFIED SCHOOL DISTRICT**

Audit Report

## **STANDARDIZED TESTING AND REPORTING PROGRAM**

Chapter 828, Statutes of 1997

*July 1, 1997, through June 30, 2004*



**JOHN CHIANG**  
California State Controller

July 2010



**JOHN CHIANG**  
**California State Controller**

July 22, 2010

Todd Gutschow, President  
Board of Education  
Poway Unified School District  
13626 Twin Peaks Road  
Poway, CA 92064

Dear Mr. Gutschow:

The State Controller's Office audited the costs claimed by Poway Unified School District for the legislatively mandated Standardized Testing and Reporting (STAR) Program (Chapter 828, Statutes of 1997) for the period of July 1, 1997, through June 30, 2004.

The district claimed \$1,574,001 for the mandated program. Our audit disclosed that \$1,102,246 is allowable and \$471,755 is unallowable. The costs are unallowable primarily because the district claimed unsupported and ineligible costs. The State made no payments to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,102,246, contingent upon available appropriations.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's Web site at [www.csm.ca.gov/docs/IRCForm.pdf](http://www.csm.ca.gov/docs/IRCForm.pdf).

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

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/sk

cc: John P. Collins, Superintendent  
Poway Unified School District  
Malliga Tholandi, Chief Financial Officer  
Poway Unified School District  
Joy Ramiro, Director of Accounting  
Poway Unified School District  
Randolph E. Ward, Ed.D., County Superintendent of Schools  
San Diego County Office of Education  
Scott Hannan, Director  
School Fiscal Services Division  
California Department of Education  
Carol Bingham, Director  
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California Department of Education  
Thomas Todd, Principal Program Budget Analyst  
Education Systems Unit  
Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Poway Unified School District for the legislatively mandated Standardized Testing and Reporting (STAR) Program (Chapter 828, Statutes of 1997) for the period of July 1, 1997, through June 30, 2004.

The district claimed \$1,574,001 for the mandated program. Our audit disclosed that \$1,102,246 is allowable and \$471,755 is unallowable. The costs are unallowable primarily because the district claimed unsupported and ineligible costs. The State made no payments to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$1,102,246, contingent upon available appropriations.

## Background

Chapter 828, Statutes of 1997, amended Education Code sections 60607, 60609, 60615, and 60630, and added Education Code sections 60640 through 60641, and 60643. Chapter 828, Statutes of 1997, and the implementing regulations at Title 5, *California Code of Regulations*, sections 850 through 904, established the Standardized Testing and Reporting (STAR) Program related to achievement testing that school districts must administer to pupils in the state.

The STAR Program requires school districts, between March 15 and May 15 of each year, to test all students in grades 2 through 11 with a nationally normed achievement test designated by the State Board of Education. School districts administered the Stanford Achievement Test, Ninth Edition (SAT-9) test in English to all pupils enrolled in grades 2 through 11 from FY 1997-98 through FY 2001-02. The California Achievement Test, Sixth Edition Survey (CAT/6) replaced the SAT-9 test effective for FY 2002-03. School districts administered the CAT/6 test in English to all pupils enrolled in grades 2 through 11 for FY 2002-03 and FY 2003-04. In addition, school districts administered an additional test, the Spanish Assessment of Basic Education, Second Edition (SABE/2), to every Spanish-speaking pupil of limited English proficiency who is enrolled in grades 2 through 11 if the pupil was initially enrolled in any public school in the state fewer than 12 months prior to the date that the English language SAT-9 test was given. School districts are also required to engage in numerous activities related to test administration and reporting.

On August 24, 2000 the Commission on State Mandates (CSM) determined that the legislation imposed a state mandate reimbursable under Government Code section 17561.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on January 24, 2002. 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.

**Objective, Scope,  
and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Standardized Testing and Reporting Program for the period of July 1, 1997, through June 30, 2004.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the 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 asked the district's representative to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming procedures as recommended by generally accepted government auditing standards. However, the district declined our request.

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.

**Conclusion**

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Poway Unified School District claimed \$1,574,001 for costs of the Standardized Testing and Reporting Program. Our audit disclosed that \$1,102,246 is allowable and \$471,755 is unallowable. The State made no payment to the district.

**Views of  
Responsible  
Official**

We issued a draft audit report on June 25, 2010. Malliga Tholandi, Associate Superintendent, responded by letter dated July 8, 2010 (Attachment), agreeing with the audit results for Findings 2 and 4 and addressing comments for the remaining findings. This final audit report includes the district's response.

**Restricted Use**

This report is solely for the information and use of Poway Unified School District, the San Diego 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  
Chief, Division of Audits

July 22, 2010

## Schedule 1— Summary of Program Costs July 1, 1997, through June 30, 2004

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 1997, through June 30, 1998</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 9,482	\$ 6,172	\$ (3,310)	Finding 1
Test materials, supplies, and equipment	3,007	—	(3,007)	Finding 1
Pretest and post-test coordination	110,336	179,070	68,734	Finding 1
Test administration	2,491	118,119	115,628	Finding 1
Reporting and recordkeeping	41,572	8,963	(32,609)	Finding 1
Total salaries and benefits	<u>166,888</u>	<u>312,324</u>	<u>145,436</u>	
Materials and supplies:				
Reporting and recordkeeping	—	7,760	7,760	Finding 2
Total direct costs	166,888	320,084	153,196	
Indirect costs	9,095	17,445	8,350	Finding 1,2,4
Total direct and indirect costs	175,983	337,529	161,546	
Less offsetting revenues and other reimbursements	—	(163,790)	(163,790)	Finding 3
Total program costs	<u>\$ 175,983</u>	173,739	<u>\$ (2,244)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 173,739</u>		
<u>July 1, 1998, through June 30, 1999</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 9,708	\$ 3,910	\$ (5,798)	Finding 1
Test materials, supplies, and equipment	3,079	—	(3,079)	Finding 1
Pretest and post-test coordination	112,963	121,688	8,725	Finding 1
Test administration	2,550	22,997	20,447	Finding 1
Reporting and recordkeeping	42,562	6,141	(36,421)	Finding 1
Total salaries and benefits	<u>170,862</u>	<u>154,736</u>	<u>(16,126)</u>	
Materials and supplies:				
Reporting and recordkeeping	—	5,648	5,648	Finding 2
Total direct costs	170,862	160,384	(10,478)	
Indirect costs	9,312	6,945	(2,367)	Finding 1,2,4
Total direct and indirect costs	180,174	167,329	(12,845)	
Less offsetting revenues and other reimbursements	—	(144,128)	(144,128)	Finding 3
Total program costs	<u>\$ 180,174</u>	23,201	<u>\$ (156,973)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 23,201</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 9,945	\$ 4,644	\$ (5,301)	Finding 1
Test materials, supplies, and equipment	3,154	—	(3,154)	Finding 1
Pretest and post-test coordination	115,718	123,041	7,323	Finding 1
Test administration	2,612	85,419	82,807	Finding 1
Reporting and recordkeeping	43,600	7,998	(35,602)	Finding 1
Total salaries and benefits	<u>175,029</u>	<u>221,102</u>	<u>46,073</u>	
Materials and supplies:				
Reporting and recordkeeping	—	5,677	5,677	Finding 2
Total direct costs	175,029	226,779	51,750	
Indirect costs	5,356	6,939	1,583	Finding 1,2,4
Total direct and indirect costs	180,385	233,718	53,333	
Less offsetting revenues and other reimbursements	—	(41,753)	(41,753)	Finding 3
Less allowable costs that exceed claimed costs <sup>2</sup>	—	(11,580)	(11,580)	
Total program costs	<u>\$ 180,385</u>	180,385	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 180,385</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 10,193	\$ 4,294	\$ (5,899)	Finding 1
Test materials, supplies, and equipment	3,233	—	(3,233)	Finding 1
Pretest and post-test coordination	118,611	121,197	2,586	Finding 1
Test administration	2,678	87,446	84,768	Finding 1
Reporting and recordkeeping	44,690	7,901	(36,789)	Finding 1
Total salaries and benefits	<u>179,405</u>	<u>220,838</u>	<u>41,433</u>	
Materials and supplies:				
Reporting and recordkeeping	—	5,133	5,133	Finding 2
Total direct costs	179,405	225,971	46,566	
Indirect costs	7,230	9,107	1,877	Finding 1,2,4
Total direct and indirect costs	186,635	235,078	48,443	
Less offsetting revenues and other reimbursements	—	(42,303)	(42,303)	Finding 3
Less allowable costs that exceed claimed costs <sup>2</sup>	—	(6,140)	(6,140)	
Total program costs	<u>\$ 186,635</u>	186,635	<u>\$ —</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 186,635</u>		

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 11,023	\$ 4,276	\$ (6,747)	Finding 1
Test materials, supplies, and equipment	3,984	—	(3,984)	Finding 1
Pretest and post-test coordination	123,805	117,912	(5,893)	Finding 1
Test administration	32,710	101,701	68,991	Finding 1
Reporting and recordkeeping	47,820	8,227	(39,593)	Finding 1
Total salaries and benefits	<u>219,342</u>	<u>232,116</u>	<u>12,774</u>	
Materials and supplies:				
Reporting and recordkeeping	—	5,288	5,288	Finding 2
Total direct costs	219,342	237,404	18,062	
Indirect costs	10,177	11,016	839	Finding 1,2,4
Total direct and indirect costs	229,519	248,420	18,901	
Less offsetting revenues and other reimbursements	—	(41,846)	(41,846)	Finding 3
Total program costs	<u>\$ 229,519</u>	206,574	<u>\$ (22,945)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 206,574</u>		
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 149,938	\$ 4,520	\$ (145,418)	Finding 1
Test materials, supplies, and equipment	2,419	—	(2,419)	Finding 1
Pretest and post-test coordination	139,139	113,379	(25,760)	Finding 1
Test administration	46,348	94,486	48,138	Finding 1
Reporting and recordkeeping	107,045	8,924	(98,121)	Finding 1
Total salaries and benefits	<u>444,889</u>	<u>221,309</u>	<u>(223,580)</u>	
Materials and supplies:				
Test materials, supplies, and equipment	4,373	—	(4,373)	
Reporting and recordkeeping	—	9,030	9,030	Finding 2
Total materials and supplies	<u>4,373</u>	<u>9,030</u>	<u>4,657</u>	
Total direct costs	449,262	230,339	(218,923)	
Indirect costs	18,105	10,434	(7,671)	Finding 1,2,4
Total direct and indirect costs	467,367	240,773	(226,594)	
Less offsetting revenues and other reimbursements	—	(62,999)	(62,999)	
Total program costs	<u>\$ 467,367</u>	177,774	<u>\$ (289,593)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 177,774</u>		

**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 25,323	\$ 3,030	\$ (22,293)	Finding 1
Test materials, supplies, and equipment	24,092	—	(24,092)	Finding 1
Pretest and post-test coordination	89,080	90,553	1,473	Finding 1
Test administration	32,385	66,127	33,742	Finding 1
Reporting and recordkeeping	20,271	7,367	(12,904)	Finding 1
Total salaries and benefits	<u>191,151</u>	<u>167,077</u>	<u>(24,074)</u>	
Materials and supplies:				
Training, policies, and procedures	615	615	—	Finding 2
Test materials, supplies, and equipment	2,497	—	(2,497)	Finding 2
Pretest and post-test coordination	1,035	1,846	811	Finding 2
Test administration	525	525	—	
Reporting and recordkeeping	10,610	10,280	(330)	Finding 2
Total materials and supplies	<u>15,282</u>	<u>13,266</u>	<u>(2,016)</u>	
Total direct costs	206,433	180,343	(26,090)	
Indirect costs	<u>10,322</u>	<u>9,017</u>	<u>(1,305)</u>	Finding 1,2,4
Total direct and indirect costs	216,755	189,360	(27,395)	
Less offsetting revenues and other reimbursements	(62,817)	(2,300)	60,517	Finding 3
Less allowable costs that exceed claimed costs <sup>2</sup>	—	(33,122)	(33,122)	
Total program costs	<u>\$ 153,938</u>	153,938	<u>\$ —</u>	
Less amount paid by the State		<u>—</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 153,938</u>		
<u>Summary: July 1, 1997, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits:				
Training, policies, and procedures	\$ 225,612	\$ 30,846	\$ (194,766)	
Test materials, supplies, and equipment	42,968	—	(42,968)	
Pretest and post-test coordination	809,652	866,840	57,188	
Test administration	121,774	576,295	454,521	
Reporting and recordkeeping	347,560	55,521	(292,039)	
Total salaries and benefits	<u>1,547,566</u>	<u>1,529,502</u>	<u>(18,064)</u>	
Materials and supplies:				
Training, policies, and procedures	615	615	—	
Test materials, supplies, and equipment	6,870	—	(6,870)	
Pretest and post-test coordination	1,035	1,846	811	
Test administration	525	525	—	
Reporting and recordkeeping	10,610	48,816	38,206	
Total materials and supplies	<u>19,655</u>	<u>51,802</u>	<u>32,147</u>	

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference <sup>1</sup>
<u>Summary: July 1, 1997, through June 30, 2004 (continued)</u>				
Total direct costs	1,567,221	1,581,304	14,083	
Indirect costs	69,597	70,903	1,306	
Total direct and indirect costs	1,636,818	1,652,207	15,389	
Less offsetting revenues and other reimbursements	(62,817)	(499,119)	(436,302)	
Less allowable costs that exceed claimed costs <sup>2</sup>	—	(50,842)	(50,842)	
Total program costs	<u>\$ 1,574,001</u>	1,102,246	<u>\$ (471,755)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,102,246</u>		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> Government Code 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 1999-2000, FY 2000-01, and FY 2003-04.

# Findings and Recommendations

## FINDING 1— Overstated salaries and benefits

The district claimed \$1,547,566 in salaries and benefits and \$68,657 in related indirect costs. Our audit determined that the district did not support the costs with proper documentation. The district did not retain documentation for fiscal year (FY) 1997-98 through FY 2002-03. For FY 2003-04, the documentation provided was not sufficient to support costs claimed. Employee e-mails to the consultant contained estimates of time spent on the STAR Program without specifying activities or dates. In addition, the district claimed costs without identifying employees' names or hourly productive rates.

The district claimed salary and benefit costs for administering the following STAR tests: (1) California Standards Tests (CST); (2) California Alternate Performance Assessment (CAPA); (3) California Achievement Test, Sixth Edition Survey (CAT/6 Survey); and (4) Spanish Assessment of Basic Education, Second Edition (SABE/2). The CST and CAPA tests are not reimbursable because they were not pled in the test claim that created this mandate. The district accounted for the costs of the STAR tests collectively, without separately identifying costs by tests. Consequently, the district claimed costs in excess of the mandated portion of the STAR program.

The district performed a time study to support costs claimed. In addition, we performed interviews and observed the reporting and recordkeeping activities at sampled school sites. We reviewed payroll records, employee time reports, and board meeting minutes to support the mandated STAR activities. As a result, we determined that the district overstated salaries and benefits by \$18,064 and understated the related indirect costs by \$507.

The following table summarizes salary and benefit adjustments and related indirect costs:

	Fiscal Year						Total	
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03		2003-04
Salaries and benefits:								
Training policies and procedures	\$ (3,310)	\$ (5,798)	\$ (5,301)	\$ (5,899)	\$ (6,747)	\$ (145,418)	\$ (22,293)	\$ (194,766)
Test materials, supplies, and equipment	(3,007)	(3,079)	(3,154)	(3,233)	(3,984)	(2,419)	(24,092)	(42,968)
Pretest and posttest coordination	68,734	8,725	7,323	2,586	(5,893)	(25,760)	1,473	57,188
Test administration	115,628	20,447	82,807	84,768	68,991	48,138	33,742	
Reporting and recordkeeping	(32,609)	(36,421)	(35,602)	(36,789)	(39,593)	(98,121)	(12,904)	(292,039)
Total direct costs	145,436	(16,126)	46,073	41,433	12,774	(223,580)	(24,074)	(18,064)
Total indirect costs	7,927	(879)	1,410	1,670	593	(9,010)	(1,204)	507
Audit adjustment	\$ 153,363	\$ (17,005)	\$ 47,483	\$ 43,103	\$ 13,367	\$ (232,590)	\$ (25,278)	\$ (17,557)

The program's parameters and guidelines, (section V.A. (1)) state:

Report each employee implementing the reimbursable activities by name, job classification, and productive hourly rate (total wages and related benefits divided by productive hours). Describe the specific reimbursable activities performed and the hours devoted to each reimbursable activity performed.

The parameters and guidelines, (section VI.A.) state:

. . . all incurred costs claimed must be traceable to source documents that show evidence of the validity and relationship to the reimbursable activities. Documents may include , but are not limited to worksheets, employee time records of time logs, cost allocation reports (system generated), invoices, receipts, purchase orders, contracts, agendas, training packets with signatures and logs of attendees, calendars, declarations, and data relevant to the reimbursable activities. . .

### Recommendation

We recommend that the district claim only costs that are reimbursable under the program's parameters and guidelines, and are properly supported with source documents.

### District's Response

#### Documentation

The draft report states that there was no supporting documentation for the FY 1997-98 through FY 2002-03 claims for the staff time claimed, and that the staff time logs for FY 2003-04 were insufficient to support claimed costs. There is no need for the District to respond to this issue now because we agreed to replace the annual claim staff time costs data with a current period time study to be applied retroactively to all the claims for the purpose of the audit.

#### Time-Study

In response to the Controller's exclusion of all District claim documentation, the District prepared a time-study based on the FY 2008-09 STAR testing cycle. The time study determined the full scope of the testing activities based on staff interviews, collected actual time spent on those activities from all District employees involved, determined an average time spent on these functions, and assigned these average hours per activity to a relevant job title or group of titles for purposes of determining the appropriate productive hourly rate to be applied to each activity. The auditor made changes to these allocations both as to reimbursable activities, average times, and the assignment to job positions. When additional documentation and staff time is available, the District will review these changes and report to the auditor, but there is no reason to delay release of the final audit report for this review.

#### Reimbursable Portion of the Testing Process

The audit determined a reimbursable portion of the total audited time-study staff cost to implement the entire STAR testing program. The reimbursable amounts for each fiscal year are based on a calculation of the percentage of the number of the reimbursable tests (e.g., CAT/6) administered to the number of all STAR assessment tests administered by the District. This approach is reasonable. However, since there is a test claim pending before the Commission on State Mandates regarding which tests are reimbursable, the District will need to dispute the Controller's determination of the percentage of the STAR program that is reimbursable until that test claim is decided.

Productive Hourly Rates

Since the staff time and employees listed in the original claims have been replaced by the time study average times per relevant job position, the productive hourly rates were calculated by the auditor for job positions and now do not generally relate to the specific employees originally claimed. When additional documentation and staff time is available, the District will review these changes and report to the auditor, but there is no reason to delay release of the final audit report for this review.

SCO's Comment

The finding and recommendation remain unchanged.

- Documentation—We make no comment on this issue, as the district did not dispute the documentation issue.
- Time-Study—We provided the district with documentation supporting our changes to its time studies on April 22, 2010, and June 1, 2010. The district should contact the SCO audit manager for any questions after reviewing the documentation.
- Reimbursable Portion of the Testing Process—The district addressed a test claim that has not been decided by the CSM. However, a decision on this issue has no impact on this audit.
- Productive Hourly Rates—The district should contact the SCO audit manager for any questions after reviewing the documentation.

**FINDING 2—  
Understated materials  
and supplies, and  
related indirect costs**

The district claimed \$19,655 in materials and supplies and \$940 in related indirect costs for the audit period. The district understated material and supplies costs by \$32,147 and the related indirect costs by \$1,444.

For FY 1997-98 through FY 2001-02, the district did not claim \$35,179 in Reporting and Recordkeeping costs related to mailing student test results.

For FY 2002-03:

- The district claimed \$4,373 in costs under the component “Test Materials and Supplies and Equipment.” This component was rescinded as of December 15, 1999. We determined that \$1,016 is unallowable, and relocated the remaining allowable costs of \$3,357 to the Reporting and Recordkeeping component.
- The district did not claim \$5,673 in Reporting and Recordkeeping costs related to mailing student test results.

For FY 2003-04:

- The district claimed \$ 2,497 in costs, under the rescinded component “Test Materials and Supplies and Equipment.” We determined that \$1,686 is unallowable, and relocated \$811 to pretest and post-test coordination.
- We disallowed \$330 in Reporting and Recordkeeping costs that were not supported with documentation.

The following table summarizes our calculations for the understated costs:

	Fiscal Year						Total	
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03		2003-04
Material and supplies:								
Claimed	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,373	\$ 15,282	\$ 19,655
Underclaimed costs	7,760	5,648	5,677	5,133	5,288	5,673	—	35,179
Expired component costs	—	—	—	—	—	(4,373)	(2,497)	(6,870)
Unallowable costs	—	—	—	—	—	—	(330)	(330)
Relocated costs	—	—	—	—	—	3,357	811	4,168
Total direct costs	7,760	5,648	5,677	5,133	5,288	4,657	(2,016)	32,147
Total indirect costs	423	308	174	207	245	188	(101)	1,444
Audit adjustment	\$ 8,183	\$ 5,956	\$ 5,851	\$ 5,340	\$ 5,533	\$ 4,845	\$ (2,117)	\$ 33,591

The parameters and guidelines (section V.2.) state:

Report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities. Purchases should be at the actual price after deducting discounts, rebates, and allowances received by the claimant.

#### Recommendation

We recommend that the district claim only costs that are reimbursable under the program’s parameters and guidelines, and are properly supported with source documents.

#### District’s Response

The District does not dispute this adjustment except to the extent it may be affected in the future by the percentage allocation of the allowable portion of the entire STAR program now pending decision by the Commission on State Mandates.

#### SCO’s Comment

The finding and recommendation remain unchanged.

The district agreed with the finding pending a decision by the CSM on a pending test claim. However, a decision on this issue has no impact on this audit.

**FINDING 3—  
Understated  
revenues/other  
reimbursements**

The district claimed \$62,817 of the \$665,556 apportionments issued by the California Department of Education (CDE) for the STAR program. The apportionments issued for the STAR program pertain to both reimbursable and non-reimbursable tests administered. We applied the district-developed reimbursable percentage to all apportionments to determine the amounts associated with the mandate. We determined that \$493,728 pertains to the mandate. Consequently, the district understated apportionments by \$430,911.

The following table summarizes the understated apportionments:

	Fiscal Year							Total
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	
CDE apportionments	\$ 163,790	\$ 196,107	\$ 55,458	\$ 62,013	\$ 61,883	\$ 62,817	\$ 63,488	\$ 665,556
Mandated percentage	× (100%)	× (69.54%)	× (69.25%)	× (62.85%)	× (63.52%)	× (61.5%)	× (60.24%)	
Apportionment per audit	(163,790)	(136,373)	(38,405)	(38,975)	(39,308)	(38,632)	(38,245)	\$ (493,728)
Claimed apportionments	—	—	—	—	—	—	62,817	\$ 62,817
Total	\$ (163,790)	\$ (136,373)	\$ (38,405)	\$ (38,975)	\$ (39,308)	\$ (38,632)	\$ 24,572	\$ (430,911)

In addition, the district did not reduce the claimed costs by \$68,208 for salaries and benefits paid from restricted funds.

The following table summarizes all the offsets understated by the district:

	Fiscal Year							Total
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	
Salaries paid from restricted resources	\$ —	\$ (7,755)	\$ (3,348)	\$ (3,328)	\$ (2,538)	\$ (24,367)	\$ (26,872)	\$ (68,208)
Apportionments	(163,790)	(136,373)	(38,405)	(38,975)	(39,308)	(38,632)	24,572	\$ (430,911)
Audit adjustment	\$ (163,790)	\$ (144,128)	\$ (41,753)	\$ (42,303)	\$ (41,846)	\$ (62,999)	\$ (2,300)	\$ (499,119)

The parameters and guidelines (section VII.) state:

Any offsetting savings the claimant experiences in the same program as a result of the same statutes or executive orders found to contain the mandate shall be deducted from the costs claimed. In addition, reimbursement for this mandate received from any source, including but not limited to, service fees collected, federal funds and other state funds shall be identified and deducted from the claim.

**Recommendation**

We recommend that the district offset any federal and state funds received that relate to the mandate.

## District's Response

### Testing Program Apportionments

The District concurs that a relevant percentage of the CDE funding is an appropriate reduction to testing costs and reported this funding as an offset in FY 2003-04. However, since the audited percentage is based on the determination of which tests are reimbursable, and that issue is still the subject of Commission action, the District will dispute this portion of the finding for that reason.

There is the additional issue of the specific purpose of the CDE funding and its limited application as an offset to claimed costs. If the purpose of the CDE funding is limited to the cost of tests forms purchased from vendors and related testing materials, then the funding should not be a general offset to the total program cost.

Aside from the issue of the reimbursable program percentage, the magnitude of the adjustment is a result of the District's previous mandate claims preparation contractor not reporting any offsetting revenue in the claims prepared for FY 1997-98 through FY 2002-03. The District has no record of why that consultant decided not to include a relevant amount of the funding as offsetting revenue.

### Restricted Funded Salary and Benefits

The draft audit report reduces the claimed salary and benefits by \$68,208 for six of the seven fiscal years included in the claim. The "restricted funds" were defined in the documentation provided by the auditor for the exit conference as any salary and benefits "paid from restricted funds (resource 2000-9999)." This appears to be an interpretation of a portion of the parameters and guidelines quoted in the draft audit report that refers to service fees collected, federal funds and other state funds.

If an employee position is funded less than 100% by these other sources, and the amount of hours claimed for that employee in the reimbursement claim is less than the remaining percentage, there is no reason to apply the other funding as offsetting revenue. If an employee that is 100% funded by these other sources is included in the claim, the issue becomes whether the other funding source was intended to reimburse the staff time spent on the STAR testing program. The audit findings do not indicate this.

This issue is also complicated by the audited application of the time study. As described at the exit conference, it is our understanding that the auditor's application of the time study required assigning the audited allowable "standard" hours for each activity to a relevant staff position either at the District office or school site if a relevant position was reported in the time study. The auditor stated that the selection process attempted to first find a position without the restricted funding. Aside from the threshold issue of whether these other sources were intended to fund the testing program, this application of the time study findings to any restricted position is not representative. The purpose of the time study is to calculate a reasonable and representative program cost in lieu of daily staff time documentation. The reimbursable activities should be assigned to the most relevant position or category of positions based on the time-study results, and not to specific employees.

SCO's Comment

The finding and recommendation remain unchanged.

- Testing Program Apportionments—The pending test claim that addresses which tests are reimbursable has no impact on this audit, as the audit was performed based on the adopted parameters and guidelines for the STAR program. The apportionment letter issued to school districts confirmed that the STAR apportionment is intended to reimburse districts, “for costs associated with the STAR Program that are above and beyond the CDE contract with its test coordinator.” We also confirmed this guideline with the CDE’s STAR representatives.
- Restricted Funded Salaries and Benefits—Based on the time study, we allowed the salaries and benefits for employees identified as STAR test coordinators and their assistants regardless of the funds used to pay the employees. The finding shows offsetting revenues to the extent these employees were funded with restricted resources. If an employee was partially funded with restricted resources, we applied such funding first to non-mandated costs. However, most of the offsetting revenues for this audit related to employees funded 100% with restricted resources.

**FINDING 4—  
Misstated indirect  
costs**

The district inaccurately applied indirect rate cost rates for FY 1998-99 and FY 2002-03.

	Fiscal Year		Total
	1998-99	2002-03	
Indirect Cost Rates:			
Allowable indirect rate	4.33%	4.53%	
Claimed indirect rate	(5.45)%	(4.03)%	
Indirect rate adjustment	(1.12)%	0.50%	
Allowable direct costs	× \$ 160,384	× \$ 230,339	
Audit adjustment	\$ (1,796)	\$ 1,152	\$ (644)

The parameters and guidelines, (section V.B.) state:

School districts must use the J-380 (or subsequent replacement) non-restrictive indirect cost rate provisionally approved by the California Department of Education.

Recommendation

We recommend that the district ensure that indirect rates it uses for indirect costs agree with CDE approved rates.

District's Response

The District does not dispute this finding.

SCO's Comment

The district agreed with the finding.

**FINDING 5—  
Reporting test results**

The district did not provide board meeting minutes to substantiate the reporting of STAR test results to the Governing Board for FY 2001-02, FY 2002-03, and FY 2003-04. Upon further inquiry, the district's Executive Director of Learning Support Services explained that the district no longer reports STAR test results, as the Governing Board uses other criteria to evaluate student performance.

The parameters and guidelines (section E.) state:

Reporting the results of the STAR Program tests to the school district governing board or county office of education on a district wide and school-by-school basis. . .

Recommendation

We recommend that the district comply with the requirements of the parameters and guidelines for any program in which costs are claimed.

District's Response

The STAR testing program is no longer a reimbursable mandate and these activities can no longer be claimed, so there is no future District action required for this finding.

SCO's Comment

The finding remains unchanged.

We modified our recommendation to state that the district should comply with the requirements of the parameters and guidelines for any program in which costs are claimed.

**OTHER ISSUES**

The district's response included other comments related to the mandated cost claims. The district's comments and SCO's response are presented below.

**Limit on Audited  
Costs**

The district's response included comments related to SCO restricting allowable costs to claimed costs for FY 1999-2000, FY 2000-01, and FY 2003-04. The district's comment and SCO's response are as follows:

District's Response

The audited total program costs (after offsetting revenues) exceed the claimed costs in FY 1999-00 (\$11,580), FY 2000-01 (\$6,140), and FY 2003-04 (\$33,122), and are not allowed by the audit. The stated basis for this limitation on allowable costs is Government Code Section 17568, cited in a footnote on page 8 of the draft audit report, that states that the State will not reimburse any claim more than one year after the filing deadlines. The State has not reimbursed, that is, made payment on any of these claims, so that citation does not appear relevant. Section 17568 pertains to the timely filing of an annual claim in order to be eligible for payment, not to the contents of the claim itself. There is no Government Code section cited that prohibits the Controller from reimbursement of audited costs in excess of claimed costs.

SCO's Comment

The finding remains unchanged.

Government Code section 17568 pertains to timely filing but further states, "In no case shall a reimbursement claim be paid that is submitted more than one year after the deadline specified in Section 17560." Consequently, this limits the district's ability to change (increase) amounts originally claimed.

**Public Record  
Request**

The district's response included a public records request. The district's comment and the SCO's response are as follows:

District's Response

The District requests copies of all audit work papers in support of Finding 1 (including time studies) and Finding 3 (offset of apportionments and restricted funds).

The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period to Finding 1 (salary and benefits and time studies) and Finding 3 (offset of restricted funds).

Government Code Section 6253, subdivision c, requires the state agency that is the subject of the request, within 10 days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in its possession and to promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, please state the estimated date and time when the records will be made available.

SCO's Comment

We provided the district all audit working papers in support of Findings 1 and 3 on April 22 and June 1, 2010, respectively.

We will respond to the district's request for all written instructions, memorandums, or other writings in effect and applicable during the claiming period for Findings 1 and 3 in a separate letter.

**Attachment—  
District’s Response to  
Draft Audit Report**

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BOARD OF EDUCATION  
Todd Gutschow  
Jeff Mengum  
Andrew Patapow  
Penny Ranftle  
Linda Vanderveen  
SUPERINTENDENT  
John P. Collins, Ed.D.



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## POWAY UNIFIED SCHOOL DISTRICT

### CERTIFIED MAIL - RETURN RECEIPT REQUESTED

July 8, 2010

Mr. Jim L. Spano, Chief  
Mandated Costs Audits Bureau  
State Controller's Office  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250-5874

**Re: Poway Unified School District  
828/97 Standardized Testing and Reporting (STAR) Program  
Fiscal Years 1997-98 through 2003-04**

Dear Mr. Spano:

This letter is the response of Poway Unified School District to the letter of Jeffrey V. Brownfield, dated June 25, 2010, and received by the District on July 1, 2010, that transmits a copy of your draft audit report of the District's Standardized Testing and Reporting (STAR) annual reimbursement claims, for the period of July 1, 1997 through June 30, 2004.

I would like to first express my appreciation for the opportunity to conduct a time study of program costs to replace the costs originally claimed for purposes of the audit. This is a reasonable method to meet the Controller's expectations for cost accounting and documentation. It avoids the total elimination of reported costs solely for documentation reasons and allows us to focus on other matters, as discussed below.

#### **Finding 1 Overstated salaries and benefits**

The draft audit report reduces the employee salary and benefit costs claimed for the staff time spent implementing the mandate by \$18,064 in direct costs and increases the indirect costs by \$507. This net adjustment amount of \$17,557 for the seven fiscal years that are included in the audit is the result of several actions.

#### Documentation

The draft audit report states that there was no supporting documentation for the FY 1997-98 through FY 2002-03 claims for the staff time claimed, and that the staff time logs for FY 2003-04 were insufficient to support claimed costs. There is no need for the District to respond to this issue now because we agreed to replace the annual claim staff time cost data with a current period time study to be applied retroactively to all the claims for the purpose of the audit.

#### Time-Study

In response to the Controller's exclusion of all District claim documentation, the District prepared a time-study based on the FY 2008-09 STAR testing cycle. The time study determined the full scope of the testing activities based on staff interviews, collected actual time spent on those activities from all District employees involved, determined an average time spent on these functions, and assigned these average hours per activity to a relevant job title or group of titles for purposes of determining the appropriate productive hourly rate to be applied to each activity. The auditor made changes to these allocations both as to reimbursable activities, average times, and the assignment to job positions. When additional documentation and staff time is available, the District will review these changes and report to the auditor, but there is no reason to delay release of the final audit report for this review.

#### Reimbursable Portion of the Testing Process

The audit determined a reimbursable portion of the total audited time-study staff cost to implement the entire STAR testing program. The reimbursable amounts for each fiscal year are based on a calculation of the percentage of the number of the reimbursable tests (e.g., CAT/6) administered to the number of all STAR assessment tests administered by the District. This approach is reasonable. However, since there is a test claim pending before the Commission on State Mandates regarding which tests are reimbursable, the District will need to dispute the Controller's determination of the percentage of the STAR program that is reimbursable until that test claim is decided.

#### Productive Hourly Rates

Since the staff time and employees listed in the original claims have been replaced by the time study average times per relevant job position, the productive hourly rates were calculated by the auditor for job positions and now do not generally relate to the specific employees originally claimed. When additional documentation and staff time is available, the District will review these changes and report to the auditor, but there is no reason to delay release of the final audit report for this review.

#### **Finding 2 Understated materials and supplies, and related indirect costs**

The draft audit report increases the claimed materials and supplies costs by \$32,147 in direct costs and \$1,444 in related indirect costs. Most of this amount relates to the cost

of mailing the test results to students. The District does not dispute this adjustment except to the extent it may be affected in the future by the percentage allocation of the allowable portion of the entire STAR program now pending decision by the Commission on State Mandates.

**Finding 3 Understated revenues/other reimbursements**

The draft audit report states the District understated offsetting revenues and other reimbursements by \$499,119. This consists of two parts:

Testing Program Apportionments

The draft audit report calculates a total revenue offset of \$430,911 for all fiscal years audited for the STAR testing program funding from the California Department of Education. The amounts for each fiscal year utilize the calculation of the percentage of reimbursable testing discussed in Finding 1.

The District concurs that a relevant percentage of the CDE funding is an appropriate reduction to testing costs and reported this funding as an offset in FY 2003-04. However, since the audited percentage is based on the determination of which tests are reimbursable, and that issue is still the subject of Commission action, the District will dispute this portion of the finding for that reason.

There is the additional issue of the specific purpose of the CDE funding and its limited application as an offset to claimed costs. If the purpose of the CDE funding is limited to the cost of tests forms purchased from vendors and related testing materials, then the funding should not be a general offset to the total program cost.

Aside from the issue of the reimbursable program percentage, the magnitude of the adjustment is a result of the District's previous mandate claims preparation contractor not reporting any offsetting revenue in the claims prepared for FY 1997-98 through FY 2002-03. The District has no record of why that consultant decided not to include a relevant amount of the funding as offsetting revenue.

Restricted Funded Salary and Benefits

The draft audit report reduces the claimed salary and benefits by \$68,208 for six of the seven fiscal years included in the claim. The "restricted funds" were defined in the documentation provided by the auditor for the exit conference as any salary and benefits "paid from restricted funds (resource 2000-9999)." This appears to be an interpretation of a portion of the parameters and guidelines quoted in the draft audit report that refers to "service fees collected, federal funds and other state funds."

If an employee position is funded less than 100% by these other sources, and the amount of hours claimed for that employee in the reimbursement claim is less than the

remaining percentage, there is no reason to apply the other funding as offsetting revenue. If an employee that is 100% funded by these other sources is included in the claim, the issue becomes whether the other funding source was intended to *reimburse* the staff time spent on the STAR testing program. The audit findings do not indicate this.

This issue is also complicated by the audited application of the time study. As described at the exit conference, it is our understanding that the auditor's application of the time study required assigning the audited allowable "standard" hours for each activity to a relevant staff position either at the District office or school site if a relevant position was reported in the time study. The auditor stated that the selection process attempted to first find a position without the restricted funding. Aside from the threshold issue of whether these other sources were intended to fund the testing program, this application of the time study findings to any restricted position is not representative. The purpose of the time study is to calculate a reasonable and representative program cost in lieu of daily staff time documentation. The reimbursable activities should be assigned to the most relevant position or category of positions based on the time-study results, and not to specific employees.

**Finding 4 Misstated indirect costs**

The draft audit report states that the District used incorrect indirect cost rates for FY 1998-99 and FY 2002-03 for a net reduction of \$644. The District does not dispute this finding.

**Finding 5 Reporting test results**

The draft audit report states that the District did not provide governing board meeting minutes to substantiate the reporting of STAR test results for FY 2001-02, FY 2002-03, and FY 2003-04, and recommended that the District implement the reporting requirements stated in the parameters and guidelines. The STAR testing program is no longer a reimbursable mandate and these activities can no longer be claimed, so there is no future District action required for this finding.

**Limit on Audited Costs**

The audited total program costs (after offsetting revenues) exceed the claimed costs in FY 1999-00 (\$11,580), FY 2000-01 (\$6,140), and FY 2003-04 (\$33,122), and are not allowed by the audit. The stated basis for this limitation on allowable costs is Government Code Section 17568, cited in a footnote on page 8 of the draft audit report, that states that the State will not reimburse any claim more than one year after the filing deadlines. The State has not reimbursed, that is, made payment on any of these claims, so that citation does not appear relevant. Section 17568 pertains to the timely filing of an annual claim in order to be eligible for payment, not to the contents of the claim itself. There is no Government Code section cited that prohibits the Controller

from reimbursement of audited costs in excess of claimed costs.

**Public Records Request**

The District requests copies of all audit work papers in support of Finding 1 (including time studies) and Finding 3 (offset of apportionments and restricted funds).

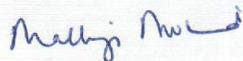
The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period to Finding 1 (salary and benefits and time studies) and Finding 3 (offset of restricted funds).

Government Code Section 6253, subdivision c, requires the state agency that is the subject of the request, within 10 days from receipt of a request for a copy of records, to determine whether the request, in whole or in part, seeks copies of disclosable public records in its possession and to promptly notify the requesting party of that determination and the reasons therefore. Also, as required, when so notifying the District, please state the estimated date and time when the records will be made available.

**Management Representation Letter**

Mr. Brownfield's letter of June 25, 2010, requests the District provide a management representation letter using a form letter provided by the auditor. The District will not provide this letter. The requested letter is not a requirement for claiming mandate reimbursement.

Sincerely,



Malliga Tholandi  
Associate Superintendent

cc: John Collins, Superintendent, Poway Unified  
Joy Ramiro, Director of Finance, Poway Unified  
Keith Petersen, President, SixTen & Associates

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