

LOS ANGELES UNIFIED SCHOOL DISTRICT

Audit Report

STANDARDIZED TESTING AND REPORTING PROGRAM

Chapter 828, Statutes of 1997

July 1, 1999, through June 30, 2004



JOHN CHIANG
California State Controller

November 2009



JOHN CHIANG
California State Controller

November 25, 2009

Mónica Garcia, President
Board of Education
Los Angeles Unified School District
333 Beaudry Avenue
Los Angeles, CA 90017

Dear Ms. Garcia:

The State Controller's Office audited the costs claimed by the Los Angeles Unified School District for the legislatively mandated Standardized Testing and Reporting Program (Chapter 828, Statutes of 1997) for the period of July 1, 1999, through June 30, 2004.

The district claimed \$19,477,889 (\$19,478,889 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$3,128,861 is allowable and \$16,349,028 (84%) is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported costs and overstated offsetting revenues and reimbursements. The State made no payment to the district. The State will pay allowable costs claimed contingent upon available appropriations. In its response to our draft audit report, included as an attachment to this report, the district agreed with our audit determinations.

We would also like to share with you our concern regarding the district's chronic inability to submit mandated cost claims that are accurate, reliable, and supported by appropriate documentation. A review of SCO audits of the district's mandated cost claims since 1999 found that the SCO determined that \$111,508,285 of \$127,570,166 in costs audited is unallowable, an error rate of 87.4% (see the schedule immediately following this letter). In most instances, the costs were unallowable for reasons similar to the ones identified in this report.

The district utilizes the service of outside consultants to prepare its mandated cost claims. Nevertheless, it is the district's responsibility to ensure that the claimed costs are allowable and supported by appropriate documentation. It has been our experience that the auditors frequently had to devote significant additional efforts in working with district staff to justify the small percentage of costs that were ultimately allowed in the audits.

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/vb

cc: Marguerite LaMotte, Board Member
Board of Education, Los Angeles Unified School District
Tamar Galatzan, Board Member
Board of Education, Los Angeles Unified School District
Steve Zimmer, Board Member
Board of Education, Los Angeles Unified School District
Yolie Flores Aguilar, Board Member
Board of Education, Los Angeles Unified School District
Nury Martinez, Board Member
Board of Education, Los Angeles Unified School District
Dr. Richard Vladovic, Board Member
Board of Education, Los Angeles Unified School District
Ramon C. Cortines, Ed.D., Superintendent
Los Angeles Unified School District
Megan K. Reilly, Chief Financial Officer
Los Angeles Unified School District
Timothy S. Rosnick, Controller
Los Angeles Unified School District
Maruch Atienza, Revenue Director
Los Angeles Unified School District
Ramon C. Cortines, Ed.D., Superintendent
Los Angeles Unified School District
Darline P. Robles, Ph.D., Superintendent
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Scott Hannan, Director
School Fiscal Services Division
California Department of Education
Carol Bingham, Director
Fiscal Policy Division
California Department of Education
Thomas Todd, Principal Program Budget Analyst
Education Systems Unit
Department of Finance

Los Angeles Unified School District
Summary of Audit Results Related to Final Mandate Audit Reports
Issued Between May 31, 2001, and November 25, 2009

No.	Program	Beginning of Audit Period	End of Audit Period	Final Issued	Claimed Costs	Allowable Costs	Adjustments	Error Rate
1	School Crimes Reporting II	07/01/1997	06/30/1999	05/31/2001	\$ 1,097,008	\$ 1,097,008	\$ —	0.0% ¹
2	Pupil Health Screening	07/01/1997	06/30/1999	09/28/2001	2,070,364	—	2,070,364	100.0% ¹
3	Emergency Procedures, Earthquake Procedures and Disasters	07/01/1997	06/30/1999	10/02/2001	16,576,313	1,969	16,574,344	100.0% ¹
4	Charter Schools	07/01/1997	06/30/1999	10/02/2001	1,671,653	1,005,204	666,449	39.9% ¹
5	Habitual Truant	07/01/1997	06/30/1999	10/02/2001	1,279,468	995,136	284,332	22.2% ¹
6	Collective Bargaining	07/01/1997	06/30/1999	11/15/2001	5,268,894	3,767,524	1,501,370	28.5% ¹
7	Pupil Exclusions	07/01/1997	06/30/1999	11/15/2001	3,094,464	395,591	2,698,873	87.2% ¹
8	Intradistrict Attendance	07/01/1997	06/30/1999	11/15/2001	1,157,654	29,897	1,127,757	97.4% ¹
9	Notification of Truancy	07/01/1998	06/30/1999	12/13/2002	712,167	—	712,167	100.0%
10	Notification of Truancy	07/01/1999	06/30/2001	12/13/2002	1,895,489	18,406	1,877,083	99.0%
11	Habitual Truant	07/01/1999	06/30/2001	06/30/2003	2,262,604	586,228	1,676,376	74.1%
12	Pupil Exclusions	07/01/1999	06/30/2001	08/06/2003	2,340,260	697,028	1,643,232	70.2%
13	Collective Bargaining	07/01/1999	06/30/2001	11/21/2003	5,083,438	704,953	4,378,485	86.1%
14	Annual Parent Notification II	07/01/1997	06/30/2000	11/21/2003	2,011,222	690,349	1,320,873	65.7%
15	Graduation Requirements	07/01/1999	06/30/2001	10/22/2004	5,760,711	—	5,760,711	100.0%
16	Mandated Reimbursement Process	07/01/1999	06/30/2001	11/30/2004	1,179,775	1,097,893	81,882	6.9%
17	Notification to Teachers: Pupils Subject to Suspension or Expulsion	07/01/1999	06/30/2002	03/09/2005	1,185,076	173,826	1,011,250	85.3%
18	Removal of Chemicals	07/01/1999	06/30/2002	03/09/2005	1,241,237	5,481	1,235,756	99.6%
19	Law Enforcement Agency Notification	07/01/2001	06/30/2004	04/30/2007	1,592,910	55,621	1,537,289	96.5%
20	Pupil Promotion and Retention	07/01/1997	06/30/2003	06/29/2007	46,640,080	1,193,139	45,446,941	97.4%
21	Pupil Health Screenings	07/01/2002	06/30/2005	02/06/2009	3,971,490	417,767	3,553,723	89.5%
22	Standardized Testing and Reporting	07/01/1999	06/30/2004	11/25/2009	19,477,889	3,128,861	16,349,028	83.9%
					\$ 127,570,166	\$ 16,061,881	\$ 111,508,285	87.4%

¹ Chapter 1128, Statutes of 2002, (AB 2834) required the State Controller's Office to withdraw audit findings related to cost of audits funded with Budget Item 8860-025-0001 of section 2.00 of Chapter 50 of the Statutes of 1999; Item 8860-025-0001 of section 2.00 of Chapter 52 of the Statutes of 2000; and Item 8860-025-0001 of section 2.00 of Chapter 106 of the Statutes of 2001. In accordance with the statutory requirement, the State Controller's Office withdrew these audits. Nevertheless, the audit findings remain a valid history of the district's error rate.

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Los Angeles Unified School District for the legislatively mandated Standardized Testing and Reporting Program (Chapter 828, Statutes of 1997) for the period of July 1, 1999, through June 30, 2004.

The district claimed \$19,477,889 (\$19,478,889 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$3,128,861 is allowable and \$16,349,028 is unallowable. The costs are unallowable primarily because the district claimed ineligible and unsupported costs and overstated offsetting revenues and reimbursements. The State made no payment to the district. The State will pay allowable costs claimed 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 California Code of Regulations, Title 5, 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 was enrolled in grades 2 through 11 if the pupil was initially enrolled in any public school in the state less 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. 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 STAR Program for the period of July 1, 1999, 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 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, the Los Angeles Unified School District claimed \$19,477,889 (\$19,478,889 less a \$1,000 penalty for filing a late claim) for costs of the Standardized Testing and Reporting Program. Our audit disclosed that \$3,128,861 is allowable and \$16,349,028 is unallowable. The State made no payment to the district. The State will pay allowable costs claimed contingent upon available appropriations.

**Views of
Responsible
Official**

We issued a draft audit report on May 27, 2009. Timothy S. Rosnick, Controller, responded by letter dated June 19, 2009 (Attachment), agreeing with the audit results. This final audit report includes the district's response.

In a letter dated November 12, 2009, Mr. Rosnick also responded to our concerns described in this report's final transmittal letter related to the district's chronic inability to submit mandated cost claims that are accurate, reliable, and supported by appropriate documentation. The district's response described steps it took more than a year ago to ensure that filed claims are valid. The response also (1) discussed the burden on districts to retain supporting documentation for an expanded period of time and (2) commented on the district's concerns that the current Commission on State Mandates' test claim process precludes valid reimbursable mandated costs.

This final audit report includes both the district's May 27, 2009 and November 12, 2009 responses.

Restricted Use

This report is solely for the information and use of the Los Angeles 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 report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

November 25, 2009

**Schedule 1—
Summary of Program Costs
July 1, 1999, through June 30, 2004**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 1999, through June 30, 2000</u>				
Direct costs:				
Salaries and benefits	\$ 1,256,276	\$ 795,030	\$ (461,246)	Findings 1, 2
Materials and supplies	<u>7,150,622</u>	<u>1,916,339</u>	<u>(5,234,283)</u>	Finding 3
Total direct costs	8,406,898	2,711,369	(5,695,529)	
Indirect costs	<u>404,372</u>	<u>130,417</u>	<u>(273,955)</u>	Finding 4
Total direct and indirect costs	8,811,270	2,841,786	(5,969,484)	
Less offsetting revenues/reimbursements	<u>(1,265,936)</u>	<u>(844,651)</u>	<u>421,285</u>	Finding 5
Total program costs	<u>\$ 7,545,334</u>	1,997,135	<u>\$(5,548,199)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 1,997,135</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Direct costs:				
Salaries and benefits	\$ 1,586,041	\$ 901,306	\$ (684,735)	Findings 1, 2
Materials and supplies	<u>3,755,502</u>	<u>197,027</u>	<u>(3,558,475)</u>	Finding 3
Total direct costs	5,341,543	1,098,333	(4,243,210)	
Indirect costs	<u>225,413</u>	<u>46,350</u>	<u>(179,063)</u>	Finding 4
Total direct and indirect costs	5,566,956	1,144,683	(4,422,273)	
Less offsetting revenues/reimbursements	<u>(1,330,359)</u>	<u>(900,709)</u>	<u>429,650</u>	Finding 5
Total program costs	<u>\$ 4,236,597</u>	243,974	<u>\$(3,992,623)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 243,974</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Direct costs:				
Salaries and benefits	\$ 1,708,612	\$ 917,926	\$ (790,686)	Findings 1, 2
Materials and supplies	<u>2,626,264</u>	<u>131,684</u>	<u>(2,494,580)</u>	Finding 3
Total direct costs	4,334,876	1,049,610	(3,285,266)	
Indirect costs	<u>72,445</u>	<u>44,503</u>	<u>(27,942)</u>	Finding 4
Total direct and indirect costs	4,407,321	1,094,113	(3,313,208)	
Less offsetting revenues/reimbursements	—	(832,702)	(832,702)	Finding 5
Less allowable costs that exceed costs claimed	<u>(1,000)</u>	<u>(1,000)</u>	—	
Total program costs	<u>\$ 4,406,321</u>	260,411	<u>\$(4,145,910)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 260,411</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2002, through June 30, 2003</u>				
Direct costs:				
Salaries and benefits	\$ 2,263,887	\$ 998,030	\$ (1,265,857)	Findings 1,2
Materials and supplies	219,522	155,134	(64,388)	Finding 3
Total direct costs	2,483,409	1,153,164	(1,330,245)	
Indirect costs	90,782	46,242	(44,540)	Finding 4
Total direct and indirect costs	2,574,191	1,199,406	(1,374,785)	
Less offsetting revenues/reimbursements	(1,265,860)	(913,849)	352,011	Finding 5
Total program costs	<u>\$ 1,308,331</u>	285,557	<u>\$ (1,022,774)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 285,557</u>		
<u>July 1, 2003, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 2,939,353	\$ 1,091,792	\$ (1,847,561)	Findings 1, 2
Materials and supplies	333,005	138,993	(194,012)	Finding 3
Total direct costs	3,272,358	1,230,785	(2,041,573)	
Indirect costs	116,986	48,985	(68,001)	Finding 4
Total direct and indirect costs	3,389,344	1,279,770	(2,109,574)	
Less offsetting revenues/reimbursements	(1,408,038)	(937,986)	470,052	Finding 5
Total program costs	<u>\$ 1,981,306</u>	341,784	<u>\$ (1,639,522)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 341,784</u>		
<u>Summary: July 1, 1999, through June 30, 2004</u>				
Direct costs:				
Salaries and benefits	\$ 9,754,169	\$ 4,704,084	\$ (5,050,085)	
Materials and supplies	14,084,915	2,539,177	(11,545,738)	
Total direct costs	23,839,084	7,243,261	(16,595,823)	
Indirect costs	909,998	316,497	(593,501)	
Total direct and indirect costs	24,749,082	7,559,758	(17,189,324)	
Less offsetting revenues/reimbursements	(5,270,193)	(4,429,897)	840,296	
Less allowable costs that exceed costs claimed	(1,000)	(1,000)	—	
Total program costs	<u>\$19,477,889</u>	3,128,861	<u>\$ (16,349,028)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 3,128,861</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries and benefits

The district claimed \$9,754,169 in salaries and benefits for the audit period. We determined that \$157,394 is allowable and \$9,596,775 is unallowable. The costs are unallowable because the district claimed \$9,481,825 in unsupported costs and \$114,950 for the non-reimbursable portion of supported Standardized Testing and Reporting (STAR) testing activities. Of the unsupported costs, \$3,658,571 related to the non-reimbursable portion of STAR testing activities and \$5,823,254 related to the portion of STAR testing activities that would have been reimbursable had the district supported the costs.

The following table summarizes claimed salaries and benefits by mandated components:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Claimed salaries and benefits:						
Training, policies, and procedures	\$ 456,862	\$ 543,037	\$ 228,691	\$ 562,663	\$ 196,518	\$ 1,987,771
Test materials, supplies, and equipment	2,288	—	—	—	—	2,288
Pretest and post-test coordination	308,497	353,054	580,675	836,800	1,843,503	3,922,529
Test administration	278,827	381,035	472,282	386,041	610,236	2,128,421
Reporting and recordkeeping	209,802	308,915	426,964	478,383	289,096	1,713,160
Total claimed	<u>\$1,256,276</u>	<u>\$1,586,041</u>	<u>\$1,708,612</u>	<u>\$2,263,887</u>	<u>\$2,939,353</u>	<u>\$ 9,754,169</u>

The following table summarizes the unallowable, claimed, and allowable salaries and benefits by cost component:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Allowable salaries and benefits claimed:						
Unsupported costs:						
Ineligible portion	\$ (464,664)	\$ (575,752)	\$ (588,818)	\$ (902,104)	\$ (1,127,233)	\$ (3,658,571)
Eligible portion	(789,324)	(1,010,289)	(1,057,343)	(1,269,413)	(1,696,885)	(5,823,254)
Total unsupported costs	(1,253,988)	(1,586,041)	(1,646,161)	(2,171,517)	(2,824,118)	(9,481,825)
Ineligible portion of supported costs	(1,090)	—	(31,325)	(43,579)	(38,956)	(114,950)
Unallowable costs claimed	(1,255,078)	(1,586,041)	(1,677,486)	(2,215,096)	(2,863,074)	(9,596,775)
Claimed costs	1,256,276	1,586,041	1,708,612	2,263,887	2,939,353	9,754,169
Allowable costs claimed	<u>\$ 1,198</u>	<u>\$ —</u>	<u>\$ 31,126</u>	<u>\$ 48,791</u>	<u>\$ 76,279</u>	<u>\$ 157,394</u>

The district claimed costs that were inadequately supported (i.e., the district submitted time records from school sites that were completed after the end of the district's fiscal year to support its reimbursable claims for STAR activities). The district did not provide any source documents to support and validate the amount of time recorded for reimbursable mandated activities.

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 test, except for testing administration. Consequently, district staff was not able to calculate the reimbursable portion based on its time records.

We developed ratios for the non-mandate portion based on the number of students tested and applied the ratios against the total amounts claimed. We determined that the non-reimbursable percentages for non-mandated costs were as follows: 47.65% for FY 1999-2000, 47.78% for FY 2000-01, 50.16% for FY 2001-02, 50.36% for FY 2002-03, and 50.07% for FY 2003-04. Based on the calculation below, ineligible costs claimed total \$3,773,521 (\$3,658,571 related to the ineligible portion of unsupported costs claimed and \$114,950 related to the ineligible portion of supported costs).

With the exception of costs claimed for test administration, unsupported costs related to total STAR testing. Costs claimed for test administration related 100% to mandated activities. Therefore, we determined the ineligible portion of unsupported costs by deducting test administration costs prior to applying the non-reimbursable percentages.

The following table summarizes the ineligible portion of unsupported salaries and benefits by cost component:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Ineligible portion of unsupported salaries and benefits:						
Training, policies, and procedures	\$ (456,862)	\$ (543,037)	\$ (215,949)	\$ (556,451)	\$ (190,397)	\$ (1,962,696)
Pretest and post-test coordination	(308,497)	(353,054)	(531,667)	(758,103)	(1,774,587)	(3,725,908)
Test administration	(278,827)	(381,035)	(472,282)	(380,206)	(572,804)	(2,085,154)
Reporting and recordkeeping	<u>(209,802)</u>	<u>(308,915)</u>	<u>(426,263)</u>	<u>(476,757)</u>	<u>(286,330)</u>	<u>(1,708,067)</u>
Unsupported costs	(1,253,988)	(1,586,041)	(1,646,161)	(2,171,517)	(2,824,118)	(9,481,825)
Less test administration	<u>278,827</u>	<u>381,035</u>	<u>472,282</u>	<u>380,206</u>	<u>572,804</u>	<u>2,085,154</u>
Portion of unsupported costs relating to total STAR testing	(975,161)	(1,205,006)	(1,173,879)	(1,791,311)	(2,251,314)	<u>\$(7,396,671)</u>
Non-mandate percentage	× (47.65)%	× (47.78)%	× (50.16)%	× (50.36)%	× (50.07)%	
Ineligible portion of unsupported costs	<u>\$ (464,664)</u>	<u>\$ (575,752)</u>	<u>\$ (588,818)</u>	<u>\$ (902,104)</u>	<u>\$ (1,127,233)</u>	<u>\$(3,658,571)</u>

The following table summarizes the ineligible portion of supported salaries and benefits by cost component:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Ineligible portion of supported salaries and benefits:						
Training, policies, and procedures	\$ —	\$ —	\$ 12,742	\$ 6,212	\$ 6,121	\$ 25,075
Test materials, supplies, and equipment	2,288	—	—	—	—	2,288
Pretest and post-test coordination	—	—	49,008	78,697	68,916	196,621
Reporting and recordkeeping	—	—	701	1,626	2,766	5,093
Subtotal	2,288	—	62,451	86,535	77,803	<u>\$ 229,077</u>
Non-mandate percentage	× (47.65)%	× (47.78)%	× (50.16)%	× (50.36)%	× (50.07)%	
Ineligible portion of supported costs	<u>\$ (1,090)</u>	<u>\$ —</u>	<u>\$ (31,325)</u>	<u>\$ (43,579)</u>	<u>\$ (38,956)</u>	<u>\$(114,950)</u>

The district used two outside consultants to assist in preparing and filing its STAR Program claims for the fiscal years under audit. Mandated Cost Systems (MCS) assisted the district in filing FY 1999-2000 and FY 2000-01 claims and Maximus assisted the district in filing FY 2001-02 through FY 2003-04 claims.

FY 1999-2000 and FY 2000-01 Claims

The district filed its FY 1999-2000 and FY 2000-01 STAR Program claims on August 1, 2002. MCS provided the district with STAR time record survey forms (copyrighted and revised February 2002 and March 2002) for the period of October 10, 1997, through June 30, 2002. The forms were distributed at or near the end of FY 2001-02 and completed between May and October 2002. District employees were requested to report, both by fiscal year and cost component, time spent on various STAR Program reimbursable activities and sign at the bottom. The certification on the form stated:

I certify under penalty of perjury that the time and costs of this activity report are true and correct or a good faith estimate to the best of my knowledge and belief, and that I have been advised that this information will be used for filing or supporting a claim with the State Controller for state funds, and the knowing misrepresentation constitutes a violation of the State False Claims Act.

Although MCS's time record surveys included hours for FY 1997-98 and FY 1998-99, the district elected not to file claims for these two fiscal years. The district received STAR revenue apportionments from the California Department of Education totaling \$3,478,864 for FY 1997-98 and \$3,868,655 for FY 1998-99.

The time survey records are a monthly summary certification by district staff of estimated time spent, based on a five-year period. The time survey records are not source documents or adequate support for amounts claimed. The district did not provide source documents to support hours recorded on the time survey records (e.g., time records, daily logs, and calendars).

The time record surveys were not completed by district staff on a timely basis or within reasonable proximity of the event or activity date. Instead, the time record surveys were completed sometime near or after the end of FY 2002-03. Time reported on the time record surveys represented a good faith estimate certification. In addition, MCS grouped some activities by job classification under some cost components instead of by individual name because it was unable to identify signature names on the sign-in sheets or time survey forms. The SCO claiming instructions require claimants to list separately each employee, including his or her name, job classification, functions performed, and description of the expenses. Grouping rather than listing employees separately increases the possibility for duplication of claimed costs.

The district provided us with boxes of sign-in sheets for meetings and/or training sessions. However, the sign-in sheets were not summarized or segregated by fiscal year, and the district did not provide working papers that reconciled information in the boxes to costs claimed. In addition, information provided was insufficient to conclude that activities were either related to or 100% reimbursable under the STAR Program. Sign-in sheets included time for mandatory annual STAR training updates for staff, even though the mandate limits reimbursement to a one-time activity per employee per test site. Also, the documentation supporting the sign-in sheets generally combined several other non-mandated topics. The majority of signatures were not legible, as attested by MCS. Of the signatures that were legible, we identified several employees who claimed training, a one-time reimbursable activity per employee per test site, for more than one fiscal year—some prior to the audit period beginning July 1, 1999.

The district also overstated FY 1999-2000 and FY 2000-01 costs related to developing internal policies, procedures, and forms to implement STAR. This is a one-time activity which should have occurred in FY 1997-98, when the STAR Program was first implemented. The district did not provide any support for the 272 individual employees claimed for FY 1999-2000 and 405 individual employees claimed for FY 2000-01, nor did it provide support for the 131 assistant principals and at least 600 principals claimed by job classification under policy development over the two fiscal years. The MCS time record surveys for FY 1997-98 through FY 2001-02 did not separate activities into two different cost categories: training costs, and developing policies. The filed claim identified no costs related to training.

FY 2001-02 through FY 2003-04

FY 2001-02 and FY 2002-03 STAR Program claims were filed on January 15, 2004, and FY 2003-04 STAR Program claims were filed on January 18, 2005. Maximus replaced MCS in the preparation of the district's FY 2001-02 STAR Program claim, which combined information gathered by both MCS and Maximus. The claim form identified some costs based on MCS's time record survey, and other costs based on other information gathered by Maximus from e-mail correspondence after the fiscal year. The majority of the claim was unsupported.

For FY 2001-02, the district duplicated costs incurred by its district coordinator for maintaining security over test materials and also overseeing the administration of the SAT-9 and SABE/2 tests to eligible students. These costs were claimed under both the Training, Policies, and Procedures cost component and the Pretest and Post-test Coordination cost component. The district also claimed the same employees under two separate categories, Review the Requirements of STAR and Preparing for, Conducting, and/or Attending Training Sessions Related to the STAR Program. The mandate lists training as one category, and the district did not indicate how this activity was segregated into two categories.

For FY 2002-03, Maximus distributed time forms titled “LAUSD Employee: State Mandate Time Study Survey Form (TSS).” The TSS form is a one-page document that comprises a total of seven different mandate programs. Combining seven different mandate programs on one TSS form without any supplemental description or instructions to clarify reimbursable activities increases the likelihood of posting errors. Consequently, district employees may have inadvertently recorded hours for mandated programs or activities in which they did not participate and/or that were ineligible under the mandate. We noted significant recording errors in prior SCO audits of the Pupil Health Screening Program and the Pupil Promotion and Retention Program.

For FY 2002-03, the TSS forms were distributed at or near the end of the fiscal year. Maximus requested district employees to complete one TSS form for each month in the fiscal year and sign at the bottom. The certification stated, “I certify that under penalty of perjury under the laws of the State of California that the foregoing is true and correct based upon personal knowledge.” The TSS forms were undated, and no space was provided for a date next to the employee’s or supervisor’s signature. District staff informed us via e-mail that the majority of the TSS forms were completed and returned between August and October 2003. The TSS forms were not prepared within reasonable proximity of the activity dates.

For FY 2002-03, the district claimed \$455,228 for 445 individual employees for developing training, and policies and procedures; and \$101,838 for 1,186 employees by job classification that was claimed for preparing for, conducting, and/or attending training sessions related to the STAR Program. The district did not explain its rationale for segregating activities within this cost component into two separate activities. Both the SCO claiming instructions and TSS forms identified the cost component as Training, Policies, and Procedures. Furthermore, training is a one-time activity per employee per test site activity, while development of policies and procedures is a one-time activity. The district did not support that only the one-time reimbursable activities were claimed.

For FY 2002-03, with the exception of the Training, Policies, and Procedures cost component, the TSS survey forms did not provide adequate descriptions of reimbursable costs under the STAR Program. Maximus instructed district employees to record their total time spent by reimbursable component (i.e., Coordinating STAR Test; Administering STAR Test; and Reporting and Recordkeeping), rather than by individual activities within each reimbursable component. District employees were not given sufficient instructions to determine which activities under the cost component are reimbursable.

For FY 2002-03, training sign-in sheets we reviewed included an average of two hours. The majority of training hours claimed was well in excess of two hours. Some employees claimed training on the TSS forms several times throughout the fiscal year rather than the reimbursable one-time per employee per test site. The STAR testing period was generally between March and May. We observed employees claiming

training, pretest and post-test, testing administration, and reporting and record keeping activities well outside of these time periods throughout the fiscal year.

For FY 2003-04, Maximus used a new time study survey form titled "STAR Mandate Activity Guide for School Sites exclusively for the STAR Program." The forms were distributed at or near the end of the fiscal year, as for FY 2002-03. District employees were instructed to complete one form for each month during the STAR testing and reporting period. Many employees completed a form for all 12 months in the fiscal year: this form included activities outside of the STAR testing and reporting period. The recording of time spent was completed between June and November 2004. The time study surveys were not recorded within reasonable proximity of the activity dates. Therefore, these records did not constitute source documents.

For FY 2001-02 through FY 2003-04, the district did not provide support that training was not held during teachers' normal classroom hours, or that it incurred increased costs for substitute teachers (i.e., stipends) to replace teachers in training during normal classroom hours. Training sessions held during teachers' normal classroom hours are not reimbursable. In addition, the district made it mandatory for all employees participating in the STAR Program to attend annual training updates. The district grouped some of the claimed training by classification rather than by individual employees. For employees identified separately, we noted that several of the same employees subject to a one-time activity per employee per test site were claimed in different fiscal years. Consequently, district employees who regularly attend annual STAR updates may have mistakenly claimed for each attendance. As noted above, grouping rather than listing employees separately increases the possibility of duplication of costs.

For FY 2001-02 through FY 2003-04, the district also overstated costs related to developing internal policies, procedures, and forms to implement the STAR Program. As noted above, this is a one-time activity which should have occurred in FY 1997-98, when the STAR Program was first implemented.

The parameters and guidelines (section IV, Reimbursable Activities) state that reviewing the requirements of the STAR Program and conducting or attending training sessions are limited to a one-time activity per employee per test site. They also state that developing internal policies, procedures, and forms to implement the STAR Program is limited to a one-time activity. In addition, they state that time spent by the classroom teacher during his or her normal classroom hours to attend training sessions, and for test administration for conducting and monitoring the reimbursable tests is not reimbursable.

The 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. . .

The following table summarizes the audit adjustment relating to unallowable salaries and benefits:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Unallowable salaries and benefits:						
Unsupported costs	\$(1,253,988)	\$(1,586,041)	\$(1,646,161)	\$(2,171,517)	\$(2,824,118)	\$(9,481,825)
Ineligible costs	(1,090)	—	(31,325)	(43,579)	(38,956)	(114,950)
Audit adjustment	<u>\$(1,255,078)</u>	<u>\$(1,586,041)</u>	<u>\$(1,677,486)</u>	<u>\$(2,215,096)</u>	<u>\$(2,863,074)</u>	<u>\$(9,596,775)</u>

Recommendation

We recommend that the district ensure that all claimed costs are reimbursable under the program’s parameters and guidelines and properly supported with source documents.

District’s Response

The district agreed with the finding and recommendation.

**FINDING 2—
Allowable teacher costs
based on alternative
methodology and
unclaimed non-teacher
costs**

As described in Finding 1, for the audit period, the district supported only \$157,394 of \$9,754,169 in claimed costs as reimbursable under the STAR Program. The supported costs related primarily to support staff. We worked with the district to develop an alternative methodology that supported \$4,546,690 in allowable costs (\$4,517,098 in teacher costs and \$29,592 in non-teacher costs). We recommended that the district consider conducting a time study to support costs or time associated with individual reimbursable activities and to apply such costs to the number of reimbursable activities performed. Instead, the district requested that we review its alternative methodology for reimbursable teacher costs.

We reviewed and accepted the district’s alternative methodology proposal, but adjusted the calculation for formula and posting errors. The district based each reimbursable component on one teacher functioning as a Test Site Coordinator per school site. The district claimed only training for newly hired staff; therefore, it limited training costs to about 9% of all school training for the audit period. Using FY 2003-04 salary reports from its Information Technology Department, the district determined that 22% of claimed teacher costs

were funded with restricted funds. We included this adjustment as offsetting revenues in Finding 5. Subsequently, we determined that the district did not claim reimbursable non-teacher costs.

The district’s alternative methodology was based on hours assigned to various tasks listed in the district’s STAR reference guide instructions, issued annually to test site coordinators. The district included only those tasks that corresponded with the reimbursable activities listed in the parameters and guidelines. We performed sufficient tests to validate the hours assigned to each task by reviewing the process and interviewing the district’s STAR District Coordinator and Head Coordinator of Student Testing. Hours for training, policies, and procedures; pretest and post-test coordination; and reporting and recordkeeping activities related to total STAR testing. Therefore, the district deducted the non-mandate portion from its calculation. We agreed with the district that there was no overlap relating to testing administration. Accordingly, testing administration was not subject to adjustment for non-mandated costs.

The following table summarizes allowable salaries and benefits based on the district’s alternative methodology for teacher costs:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Allowable teacher salaries and benefits– Alternative methodology:						
Supported portion of total STAR testing:						
Training, policies, and procedures	\$ 11,022	\$ 13,815	\$ 13,574	\$ 9,656	\$ 12,317	\$ 60,384
Pretest and post-test coordination	996,837	1,132,923	1,144,373	1,227,816	1,303,763	5,805,712
Reporting and recordkeeping	91,679	104,207	105,216	112,928	120,005	534,035
Subtotal	1,099,538	1,250,945	1,263,163	1,350,400	1,436,085	\$6,400,131
Mandate percentage	× 52.35%	× 52.22%	× 49.84%	× 49.64%	× 49.93%	
Subtotal	575,608	653,243	629,560	670,339	717,037	\$3,245,787
Test administration	218,224	248,063	250,392	268,814	285,818	1,271,311
Total allowable teacher costs	\$ 793,832	\$ 901,306	\$ 879,952	\$ 939,153	\$ 1,002,855	\$4,517,098

The following table summarizes allowable salaries and benefits for unclaimed non-teacher costs:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Allowable non-teacher salaries and benefits–Alternative methodology:						
Supported portion of total STAR testing:						
Training, policies, and procedures	\$ —	\$ —	\$ 1,397	\$ 678	\$ 672	\$ 2,747
Pretest and post-test coordination	—	—	5,374	8,594	7,570	21,538
Test administration	—	—	—	637	4,112	4,749
Reporting and recordkeeping	—	—	77	177	304	558
Total allowable non-teacher costs	\$ —	\$ —	\$ 6,848	\$ 10,086	\$ 12,658	\$ 29,592

The following table summarizes the audit adjustment relating to allowable teacher and non-teacher salaries and benefits:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Allowable teacher and non-teacher salaries and benefits:						
Allowable teacher costs—						
Alternative methodology	\$ 793,832	\$ 901,306	\$ 879,952	\$ 939,153	\$ 1,002,855	\$ 4,517,098
Allowable non-teacher costs—						
Unclaimed costs	—	—	6,848	10,086	12,658	29,592
Audit adjustment	\$ 793,832	\$ 901,306	\$ 886,800	\$ 949,239	\$ 1,015,513	\$ 4,546,690

The parameters and guidelines allow the district to claim actual costs for one fiscal year.

Recommendation

We recommend that the district ensure that all claimed costs are reimbursable under the program's parameters and guidelines and properly supported with source documents.

District's Response

The district agreed with the finding and recommendation.

FINDING 3— Unallowable materials and supplies and related indirect costs

The district claimed \$14,084,915 in materials and supplies for the audit period. Our audit determined that \$2,327,655 is allowable and \$11,757,260 is unallowable. The costs are unallowable because the district claimed \$9,614,712 in unsupported costs and \$2,142,548 for the non-reimbursable portion of supported STAR testing activities. Of the unsupported costs, \$4,666,789 related to the non-reimbursable portion of STAR testing activities and \$4,947,923 related to the portion of STAR testing activities that would have been reimbursable had the district supported the costs. We also allowed \$211,533 in understated postage costs.

The following table summarizes claimed materials and supplies by mandated components:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Claimed materials and supplies:						
Training, policies, and procedures	\$ 231,507	\$ 106,332	\$ 274,586	\$ 2,000	\$ —	\$ 614,425
Test materials, supplies, and equipment	4,500,160	—	—	—	—	4,500,160
Pretest and post-test coordination	40	40	33,389	123,623	—	157,092
Test administration	—	—	—	189	46,981	47,170
Reporting and recordkeeping	2,418,915	3,649,130	2,318,289	93,710	286,024	8,766,068
Total claimed	\$ 7,150,622	\$ 3,755,502	\$ 2,626,264	\$ 219,522	\$ 333,005	\$ 14,084,915

The following table summarizes unallowable, claimed, and allowable materials and supplies:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Allowable materials and supplies claimed:						
Unsupported costs:						
Ineligible portion	\$(1,669,621)	\$(1,631,532)	\$(1,285,054)	\$ (68,838)	\$ (11,745)	\$(4,666,789)
Eligible portion	(1,834,306)	(1,783,143)	(1,276,855)	(41,905)	(11,713)	(4,947,923)
Total unsupported costs	(3,503,927)	(3,414,675)	(2,561,909)	(110,743)	(23,458)	(9,614,712)
Ineligible portion of supported costs	(1,737,650)	(162,847)	(32,280)	(54,781)	(154,990)	(2,142,548)
Unallowable costs claimed	(5,241,577)	(3,577,522)	(2,594,189)	(165,524)	(178,448)	(11,757,260)
Misstated postage costs	7,294	19,047	99,609	101,136	(15,564)	211,522
Net unallowable costs claimed	(5,234,283)	(3,558,475)	(2,494,580)	(64,388)	(194,012)	(11,545,738)
Claimed costs	7,150,622	3,755,502	2,626,264	219,522	333,005	14,084,915
Allowable costs claimed	\$ 1,916,339	\$ 197,027	\$ 131,684	\$ 155,134	\$ 138,993	\$ 2,539,177

As noted in Finding 1, the district accounted for the costs of the STAR tests collectively, without separately identifying the costs by test, including the cost of two STAR tests that are not reimbursable under the mandate because they were not pled in the test claim that created this mandate. Consequently, district staff were not able to calculate the reimbursable portion based on the district's records. We determined the ineligible portion of unsupported costs by applying the non-reimbursable percentage.

The district claimed \$4,500,160 in test materials, supplies, and equipment for FY 1999-2000. Based on our review of test materials claimed, we identified only two invoices that qualified as document support for the reimbursable period of January 2, 1998, through December 15, 1999. These invoices totaled \$2,959,389. The district was not able to provide documented support for \$1,540,771 in costs, which was described in its working papers as Optional Star Report.

The district did not provide source documents for most of the materials and supplies claimed (e.g., training materials and reprographic costs). In lieu of document support for postage costs claimed under the Reporting and Recordkeeping cost component, we worked with the district and determined allowable postage costs based on the postage rates multiplied by the number of students tested, net of the non-mandated portion.

The following table summarizes the ineligible portion of unsupported materials and supplies:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Ineligible portion of unsupported materials and supplies:						
Training, policies, and procedures	\$ (569)	\$ (695)	\$ (262,032)	\$ —	\$ —	\$ (263,296)
Test materials and supplies	(1,540,771)	—	—	—	—	(1,540,771)
Pretest and post-test coordination	(40)	(40)	(33,126)	(123,623)	—	(156,829)
Test administration	—	—	—	(94)	(23,458)	(23,552)
Reporting and recordkeeping	(1,962,547)	(3,413,940)	(2,266,751)	(12,974)	—	(7,630,264)
Total unsupported costs	(3,503,927)	(3,414,675)	(2,561,909)	(136,691)	(23,458)	\$(9,614,712)
Non-mandate percentage	× 47.65%	× 47.78%	× 50.16%	× 50.36%	× 50.07%	
Ineligible portion of unsupported costs	\$(1,669,621)	\$(1,631,532)	\$(1,285,054)	\$ (68,838)	\$ (11,745)	\$(4,666,789)

The following table summarizes the ineligible portion of supported materials and supplies:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Ineligible portion of supported materials and supplies:						
Training, policies, and procedures	\$ (230,938)	\$ (105,637)	\$ (12,554)	\$ (2,000)	\$ —	\$ (351,129)
Test materials, supplies, and equipment	(2,959,389)	—	—	—	—	(2,959,389)
Pretest and post-test coordination	—	—	(263)	—	—	(263)
Test administration	—	—	—	(95)	(23,523)	(23,618)
Reporting and recordkeeping	(456,368)	(235,190)	(51,538)	(106,684)	(286,024)	(1,135,804)
Subtotal	(3,646,695)	(340,827)	(64,355)	(108,779)	(309,547)	\$ (4,470,203)
Non-mandate percentage	× 47.65%	× 47.78%	× 50.16%	× 50.36%	× 50.07%	
Ineligible costs	\$ (1,737,650)	\$ (162,847)	\$ (32,280)	\$ (54,781)	\$ (154,990)	\$ (2,142,548)

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. . .

The parameters and guidelines (section IV.E.) state:

The cost of materials and supplies used for reports (including, paper and envelopes), the cost of postage for mailing reports to parents, and the cost of computer programming used for reporting purposes is reimbursable under this activity.

The following table summarizes the audit adjustment relating to unallowable materials and supplies:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Unallowable materials and supplies:						
Unsupported costs	\$ (3,503,927)	\$ (3,414,675)	\$ (2,561,909)	\$ (110,743)	\$ (23,458)	\$ (9,614,712)
Ineligible costs	(1,737,650)	(162,847)	(32,280)	(54,781)	(154,990)	(2,142,548)
Misstated postage costs	7,294	19,047	99,609	101,136	(15,564)	211,522
Audit adjustment	\$ (5,234,283)	\$ (3,558,475)	\$ (2,494,580)	\$ (64,388)	\$ (194,012)	\$ (11,545,738)

Recommendation

We recommend that the district ensure that all claimed costs are reimbursable under the program's parameters and guidelines and properly supported with source documents.

District's Response

The district agreed with the finding and recommendation.

**FINDING 4—
Overstated indirect costs**

The district overstated indirect costs by \$593,501 primarily because of the adjustment to claimed costs in Findings 1 through 3.

The following table summarizes the audit adjustment relating to overstated indirect costs:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Indirect costs:						
Allowable direct costs	\$2,711,369	\$1,098,333	\$1,049,610	\$1,153,164	\$1,230,785	\$ 7,243,261
Indirect cost rate	× 4.81%	× 4.22%	× 4.24%	× 4.01%	× 3.98%	
Allowable indirect costs	130,417	46,350	44,503	46,242	48,985	316,497
Less claimed indirect costs	404,372	225,413	72,445	90,782	116,986	909,998
Audit adjustment	\$ (273,955)	\$ (179,063)	\$ (27,942)	\$ (44,540)	\$ (68,001)	\$ (593,501)

The parameters and guidelines allow the district to claim all costs related to reimbursable program activities, inclusive of indirect costs.

Recommendation

None. The audit adjustment relates primarily to the audit adjustments in Findings 1 through 3.

District’s Response

The district agreed with the finding and recommendation.

**FINDING 5—
Overstated offsetting revenues/reimbursements**

The district overstated offsetting revenues and reimbursements by \$840,296 for the audit period. The district overstated offsetting revenues and reimbursements related to STAR apportionment by \$1,876,100. It also did not report teacher costs funded with restricted resources of \$1,035,804.

The district misstated the annual STAR apportionments it received from the California Department of Education and did not reduce offsetting revenues and reimbursements by the non-mandate portion of the STAR program. As a result, the district overstated the mandate portion of STAR apportionments by \$1,876,100.

The following table summarizes the overstated offsetting revenues and reimbursements related to STAR apportionments:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Offsetting revenues and reimbursements:						
CDE apportionment	\$1,263,816	\$1,329,096	\$1,265,860	\$1,408,038	\$1,419,140	\$ 6,685,950
Mandate-related percentage	× (52.35)%	× (52.22)%	× (49.84)%	× (49.64)%	× (49.93)%	
Mandate-related apportionment	(661,608)	(694,054)	(630,904)	(698,950)	(708,577)	\$ (3,394,093)
Less claimed CDE apportionment	1,265,936	1,330,359	—	1,265,860	1,408,038	5,270,193
Audit adjustment—Misstated reported apportionment	\$ 604,328	\$ 636,305	\$ (630,904)	\$ 566,910	\$ 699,461	\$ 1,876,100

In addition, the district did not offset claimed costs of teachers funded with restricted resources (see Finding 2). Based on the methodology described in Finding 1, we determined that \$1,035,804 is related to the mandate.

The following table summarizes teacher costs funded with restricted resources:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Teacher costs funded with restricted funds:						
Allowable teacher salaries and benefits	\$ 793,832	\$ 901,306	\$ 879,952	\$ 939,153	\$ 1,002,855	\$ 4,517,098
Indirect cost rate	× 4.81%	× 4.22%	× 4.24%	× 4.01%	× 3.98%	
Related indirect costs	38,183	38,035	37,310	37,660	39,914	191,102
Subtotal	832,015	939,341	917,262	976,813	1,042,769	\$ 4,708,200
Restricted funding percentage	× (22.00)%	× (22.00)%	× (22.00)%	× (22.00)%	× (22.00)%	
Audit adjustment—Unreported restricted funding	\$ (183,043)	\$ (206,655)	\$ (201,798)	\$ (214,899)	\$ (229,409)	\$ (1,035,804)

The following table summarizes the audit adjustment relating to overstated offsetting reimbursements:

	Fiscal Year					Total
	1999-2000	2000-01	2001-02	2002-03	2003-04	
Summary of adjustment:						
Audit adjustment—Misstated reported apportionment	\$ 604,328	\$ 636,305	\$ (630,904)	\$ 566,910	\$ 699,461	\$ 1,876,100
Audit adjustment—Unreported restricted funding	(183,043)	(206,655)	(201,798)	(214,899)	(229,409)	(1,035,804)
Audit adjustment—Offsetting revenues	\$ 421,285	\$ 429,650	\$ (832,702)	\$ 352,011	\$ 470,052	\$ 840,296

Recommendation

We recommend that the district ensure that only applicable revenues and reimbursements be offset on its claims against its mandated program costs. We also recommend that the district offset claimed costs by employees funded with restricted resources.

District’s Response

The district agreed with the finding and recommendation.

**Attachment—
District's Responses to
Draft Audit Report**

LOS ANGELES UNIFIED SCHOOL DISTRICT
Accounting and Disbursements Division

RAMON C. CORTINES
Superintendent of Schools

MEGAN K. REILLY
Chief Financial Officer



TIMOTHY S. ROSNICK
Controller

V. LUIS BUENDIA
Deputy Controller

June 19, 2009

Mr. Jim Spano, Chief
Mandated Cost Audits Bureau
State Controller's Office
Division of Audits
P. O. Box 942850
Sacramento, CA 92450-5874

Dear Mr. Spano:

This is in response to the draft audit report for the legislatively mandated Standardized Testing and Reporting Program dated May 27, 2009. The District agrees with the findings as reflected in the above mentioned draft. I would like to thank you for considering the District's responses to the preliminary audit report dated September 24, 2008 and reflecting it in the final draft audit report.

Per your request, attached is the management representation letter for this program. Please call me at (213) 241-7889 or Maruch Atienza at (213) 241-7982 if you have additional questions or concerns.

Sincerely,

A handwritten signature in blue ink, appearing to read "Timothy S. Rosnick".

Timothy S. Rosnick

TSR:ae

Attachment

c: Ramon C. Cortines
James Morris
Megan K. Reilly
John Walsh
Luis Buendia
Maruch Atienza

LOS ANGELES UNIFIED SCHOOL DISTRICT
Accounting and Disbursements Division

RAMON C. CORTINES
Superintendent of Schools

MEGAN K. REILLY
Chief Financial Officer



TIMOTHY S. ROSNICK
Controller

V. LUIS BUENDIA
Deputy Controller

TERESA SANTAMARIA
Deputy Controller

November 12, 2009

Jim L. Spano, CPA
Chief, Compliance Audits Bureau
Division of Audits
State Controllers Office
P.O. Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano:

Thank you for allowing the District the opportunity to provide a supplemental response to the audit report for the legislatively mandated Standardized Testing and Reporting Program. The District takes its responsibility to submit "accurate, reliable" claims seriously. The error rate cited by the SCO had not gone unnoticed by the District. While we don't agree with all of the conclusions in the audit reports, we wanted to let you know what the District has been doing to improve our performance. The District implemented a reassessment of its mandated cost procedures well over a year ago resulting in changes both internally and externally. It replaced the outside consultant used to assist the District in filing its claims for reimbursement. Claims are now supported with more appropriate documentation that corroborates the request for reimbursement. Costs that cannot be appropriately supported are not tendered for reimbursement based on estimates or other loose projections of expense.

The complexity of the District's claims make the above a demanding objective. Yet the District understands this cannot be used as an explanation for claims that fail to meet its new standards. The District is confident that the error rate of past claims will be significantly reduced under this more rigorous process and the District is grateful for the more active role the SCO is taking in helping claimants better understand the mandate reimbursement process.

It is essential to note the growing sentiment that exists for critically needed reforms to the mandate reimbursement process that has been recently underscored by the State Auditor and the State Controller as well. Among many issues, we believe the statutory practice of beginning the audit window for mandate claims three years after the state funds them rather than three years from the date the claim is submitted is entirely unfair to school agencies. This timeline translates to a requirement to retain records in excess of 10 years in the case of certain mandates. The ability of school agencies to retain records of such detail and volume for many years is a burden that is beyond reasonable. We also have concerns about how the test claim process is used to

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preclude valid costs that were not included in the original test claim filed by another district. We understand that many in the Legislature and the Controller are working toward reforms that will eventually address these issues, but are indeed related to some of the matters raised in your audit. We look forward to working with the Controller and other state leaders on fair and meaningful mandate reform in the future.

If you have any questions, please call me at (213) 241-7889 or Maruch Atienza at (213) 241-7982.

Sincerely,



Timothy S. Rosnick
Controller

C: Ramon Cortines
James Morris
Megan K. Reilly
John Walsh
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