

POWAY UNIFIED SCHOOL DISTRICT

Audit Report

NATIONAL NORM-REFERENCED ACHIEVEMENT TEST PROGRAM

Chapter 828, Statutes of 1997

July 1, 2005, through June 30, 2007



JOHN CHIANG
California State Controller

August 2010



JOHN CHIANG
California State Controller

August 23, 2010

Todd Gutschow, President
Board of Education
Poway Unified School District
15250 Avenue of Science
San Diego, CA 92128-3406

Dear Mr. Gutschow:

The State Controller's Office audited the costs claimed by Poway Unified School District for the legislatively mandated National Norm-Referenced Achievement Test Program (Chapter 828, Statutes of 1997) for the period of July 1, 2005, through June 30, 2007.

The district claimed \$200,693 for the mandated program. Our audit disclosed that \$104,180 is allowable and \$96,513 is unallowable. The costs are unallowable primarily because the district claimed unsupported or ineligible costs. The State made no payments to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$104,180, 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.

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, Ed.D., Superintendent
Poway Unified School District
Malliga Tholandi, Associate Superintendent
Poway Unified School District
Joy Ramiro, Director of Finance
Poway Unified School District
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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 National Norm-Referenced Achievement Test Program (Chapter 828, Statutes of 1997) for the period of July 1, 2005, through June 30, 2007.

The district claimed \$200,693 for the mandated program. Our audit disclosed that \$104,180 is allowable and \$96,513 is unallowable. The costs are unallowable primarily because the district claimed unsupported or ineligible costs. The State made no payments to the district. The State will pay allowable costs claimed that exceed the amount paid, totaling \$104,180, 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.

On August 24, 2000, the Commission on State Mandates (CSM), adopted a Statement of Decision finding that the test claim legislation and regulations impose a new program or higher level of service within the meaning of article XIII B, section 6 of the California Constitution, and costs mandated by the state pursuant to Government Code section 17514. This decision was limited to a national norm-referenced achievement test (NRAT) and foreign language test enacted by Chapter 828, Statutes of 1997.

Chapter 216, Statutes of 2004, section 34 (Senate Bill No. 1108, effective August 11, 2004) and Chapter 895, Statutes of 2004, section 19 (Assembly Bill No. 2855, effective January 1, 2005) directed the CSM to reconsider the prior final decision and parameters and guidelines for the STAR program. On July 28, 2005, the CSM found, effective July 1, 2004, that administering the California Achievement Tests, Sixth Edition Survey (CAT/6) in grades 3 and 7 imposes a reimbursable state mandate on school districts within the meaning of article XIII B, section 6 of the California Constitution and Government Code sections 17514 and 17556. The NRAT Program requires school districts to test all students in grades 3 and 7 with this test between March 15 and May 15. Reference to the CAT/6 also applies to successor national norm-referenced achievement test selected by the California Department of Education. The CSM found that all of the other activities were either federally mandated, and thus not reimbursable, or no longer required.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the NRAT parameters and guidelines on December 9, 2005. The SCO issues claiming instructions to assist local agencies and school districts in claiming mandated programs reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the National Norm-Referenced Achievement Test Program for the period of July 1, 2005, through June 30, 2007.

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.

We asked the district's representatives to submit a written representation letter regarding the district's accounting procedures, financial records, and mandated cost claiming its procedures as recommended by generally accepted government auditing standards. However, the district declined our request.

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 \$200,693 for costs of the National Norm-Referenced Achievement Test Program. Our audit disclosed that \$104,180 is allowable and \$96,513 is unallowable.

Views of Responsible Official

We issued a draft audit report on June 30, 2010. Malliga Tholandi, Associate Superintendent, responded by letter dated July 13, 2010 (Attachment), agreeing with the audit results for Finding 3 and providing 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

August 23, 2010

**Schedule 1—
Summary of Program Costs
July 1, 2005, through June 30, 2007**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2005, through June 30, 2006</u>				
Direct costs:				
Salaries and benefits:				
Training policies and procedures	\$ 8,740	\$ 2,000	\$ (6,740)	Findings 1, 2
Pretest and post-test coordination	329	42,143	41,814	Findings 1, 2
Test administration	64,216	15,593	(48,623)	Findings 1, 2
Reporting and recordkeeping	798	3,263	2,465	Findings 1, 2
Total salaries and benefits	<u>74,083</u>	<u>62,999</u>	<u>(11,084)</u>	
Materials and supplies:				
Reporting and recordkeeping	—	2,380	2,380	Finding 3
Total direct costs	74,083	65,379	(8,704)	
Indirect costs	3,845	3,393	(452)	
Total direct and indirect costs	77,928	68,772	(9,156)	
Less offsetting revenues and other reimbursements	<u>(12,214)</u>	<u>(16,346)</u>	<u>(4,132)</u>	Finding 4
Total program costs	<u>\$ 65,714</u>	52,426	<u>\$ (13,288)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 52,426</u>		
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits:				
Training policies and procedures	\$ 22,202	\$ 1,160	\$ (21,042)	Findings 1, 2
Pretest and post-test coordination	—	36,141	36,141	Findings 1, 2
Test administration	115,530	20,545	(94,985)	Findings 1, 2
Reporting and recordkeeping	1,789	3,895	2,106	Findings 1, 2
Total salaries and benefits	<u>139,521</u>	<u>61,741</u>	<u>(77,780)</u>	
Materials and supplies:				
Reporting and recordkeeping	—	2,048	2,048	Finding 3
Total direct costs	139,521	63,789	(75,732)	
Indirect costs	7,743	3,540	(4,203)	
Total direct and indirect costs	147,264	67,329	(79,935)	
Less offsetting revenues and other reimbursements	<u>(12,285)</u>	<u>(15,575)</u>	<u>(3,290)</u>	Finding 4
Total program costs	<u>\$ 134,979</u>	51,754	<u>\$ (83,225)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 51,754</u>		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>Summary: July 1, 2005, through June 30, 2007</u>				
Direct costs:				
Salaries and benefits:				
Training policies and procedures	\$ 30,942	\$ 3,160	\$ (27,782)	
Pretest and post-test coordination	329	78,284	77,955	
Test administration	179,746	36,138	(143,608)	
Reporting and recordkeeping	2,587	7,158	4,571	
Total salaries and benefits	<u>213,604</u>	<u>124,740</u>	<u>(88,864)</u>	
Materials and supplies:				
Reporting and recordkeeping	—	4,428	4,428	
Total direct costs	213,604	129,168	(84,436)	
Indirect costs	<u>11,588</u>	<u>6,933</u>	<u>(4,655)</u>	
Total direct and indirect costs	225,192	136,101	(89,091)	
Less offsetting revenues and other reimbursements	<u>(24,499)</u>	<u>(31,921)</u>	<u>(7,422)</u>	
Total program costs	<u>\$ 200,693</u>	104,180	<u>\$ (96,513)</u>	
Less amount paid by the State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 104,180</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Overstated claims for FY 2005-06 and FY 2006-07

During the audit, the district submitted revised claims for fiscal year (FY) 2005-06 and FY 2006-07. These claims were submitted past the filing deadlines of January 16, 2008, for FY 2005-06 and February 16, 2009, for FY 2006-07. The district's revised claims showed that the district's filed claims overstated costs by \$124,796.

The following table summarizes the difference between the original and revised claims:

	Fiscal Year		Total
	2005-06	2006-07	
Revised amounts	\$ 36,307	\$ 39,590	\$ 75,897
Claimed costs	(65,714)	(134,979)	(200,693)
Audit adjustment	\$ (29,407)	\$ (95,389)	\$ (124,796)

The following table details claim revisions by cost components:

Reimbursable Component	Claimed	Revised	Audit Adjustment
<u>Direct Costs</u>			
FY 2005-06:			
Training policies and procedures	\$ 8,740	\$ 9,639	\$ 899
Pretest and post-test coordination	329	1,559	1,230
Test administration	64,216	23,747	(40,469)
Reporting and recordkeeping	798	11,182	10,384
Total direct cost	74,083	46,127	(27,956)
Indirect costs	3,845	2,394	(1,451)
Subtotal	77,928	48,521	(29,407)
Less offsetting revenues/other reimbursements	(12,214)	(12,214)	—
Total claimed amount, FY 2005-06	\$ 65,714	\$ 36,307	\$ (29,407)
FY 2006-07:			
Training policies and procedures	\$ 22,202	\$ 10,240	\$ (11,962)
Pretest and post-test coordination	—	1,638	1,638
Test administration	115,530	25,426	(90,104)
Reporting and recordkeeping	1,789	11,843	10,054
Total direct cost	139,521	49,147	(90,374)
Indirect costs	7,743	2,728	(5,015)
Subtotal	147,264	51,875	(95,389)
Less offsetting revenues/other reimbursements	(12,285)	(12,285)	—
Total claimed amount, FY 2006-07	\$ 134,979	\$ 39,590	\$ (95,389)

Government Code section 17560 specifies the time period during which a claimant may file a claim. Government Code section 17568 allows a claimant to file a claim within one year after the deadline specified in section 17560.

Recommendation

We recommend that the district submit revised claims to the State Controller's Office prior to the final filing period.

District's Response

This Finding reconciles the amounts for the NRAT claims as originally filed by the District with the amounts for the revised claims filed by the District in November 2009, after the audit commenced. The opportunity to file the revised claims resulted from amended parameters and guidelines adopted on May 29, 2009, by the Commission on State Mandates with retroactive effect to FY 2004-05. The revised claim amounts are based on the results of the District's time study.

This Finding also reconciles the audited application of the District time study for FY 2005-06 and FY 2006-07 to the original and revised District claim amounts. However, the audit adjustments are made to the original claim amounts rather than to the revised claim amounts. Thus, it does not appear that the Controller has accepted the revised claims as the final District annual claims. The Controller's recommendation for this Finding is that the District submit revised claims prior to the final filing period in apparent reference to the one-year eligibility period for the original claims. The District filed the original claims within the eligibility period established by the original parameters and guidelines and filed the revised claims within the eligibility period established by the amended parameters and guidelines. It would be impossible for the District to file revised claims within the original eligibility period when the right to file revised claims arises from subsequent amended parameters and guidelines.

Of course, the net dollar effect of the audit adjustments for the two fiscal years in the audit is the same. The District also filed in November 2009 a first time claim for FY 2004-05, a revised claim for FY 2007-08, and a first time (short-period) claim for FY 2008-09, as a result of the amended parameters and guidelines. Although these subsequent new and revised claims were available to the auditor at the same time as the revised claims for FY 2005-06 and 2006-07 (which are referenced in the draft audit for purposes of reconciliation only), these other claims were not audited or otherwise recognized as the final annual claims for these fiscal years.

SCO's Comment

With a minor exception, the finding and recommendation remain unchanged.

The May 29, 2009 amended NRAT parameters and guidelines have no impact on FY 2004-05 through FY 2006-07 NRAT claims. They were merely updated to state that the program was repealed effective September 30, 2008, and established a filing date of December 1, 2009, for FY 2008-09 NRAT claims.

FY 2004-05 NRAT claims were due June 21, 2006, and considered late if filed up to June 21, 2007. For claimants that filed a FY 2004-05 STAR claim in error, SCO's Division of Accounting and Reporting

extended the NRAT filing deadline to May 8, 2008. The district's FY 2004-05 NRAT claim filed on December 1, 2009, for \$32,394, was filed after the deadline. Therefore, the claim is invalid and not subject to payment.

As noted in the finding, the FY 2005-06 and FY 2006-07 NRAT claims were filed after the filing deadlines for which the claims could be paid. As to the FY 2007-08 and FY 2008-09 claims, we agree that these claims were not included in the scope of this audit.

**FINDING 2—
Understated salaries
and benefits**

Initially, the district claimed \$213,604 in salaries and benefits and \$11,588 in related indirect costs. Our audit determined that the district did not support the claimed costs with adequate documentation because it used year-end certifications.

However, the district performed a time study to support the claimed costs. Additionally, we conducted interviews and observed the reporting and recordkeeping activities at the sampled school sites. The district provided payroll records and employee time reports to support the mandated costs. As a result, we determined that the district understated salaries and benefits and related indirect costs of \$17,748 for FY 2005-06 and \$13,293 for FY 2006-07.

The following table summarizes allowable costs, revised claim amounts, and final audit adjustments:

<u>Reimbursable Component</u>	<u>Revised Claim</u>	<u>Audit Allowable</u>	<u>Adjustment</u>
<u>Salaries and Benefits</u>			
FY 2005-06:			
Training policies and procedures	\$ 9,639	\$ 2,000	\$ (7,639)
Pretest and post-test coordination	1,559	42,143	40,584
Test administration	23,747	15,593	(8,154)
Reporting and recordkeeping	11,182	3,263	(7,919)
Total direct costs	46,127	62,999	16,872
Total indirect costs	2,394	3,270	876
Total, FY 2005-06	<u>\$ 48,521</u>	<u>\$ 66,269</u>	<u>\$ 17,748</u>
FY 2006-07:			
Training policies and procedures	\$ 10,240	\$ 1,160	\$ (9,080)
Pretest and post-test coordination	1,638	36,141	34,503
Test administration	25,426	20,545	(4,881)
Reporting and recordkeeping	11,843	3,895	(7,948)
Total direct costs	49,147	61,741	12,594
Total indirect costs	2,728	3,427	699
Total, FY 2006-07	<u>\$ 51,875</u>	<u>\$ 65,168</u>	<u>\$ 13,293</u>

The program's parameters and guidelines (section IV.) state:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a

document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents.

The parameters and guidelines (section V., part A.(1)) state:

Salaries and Benefits

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.

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 audit report states that the supporting documentation for the original claims is 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 and grade-levels) 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/NRAT 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 made 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 May 19, 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 3—
Understated materials
and supplies**

The district did not claim any materials and supplies for FY 2005-06 and FY 2006-07. Our audit determined that the cost of mailing student test results to pupils’ parents, totaling \$4,428, is reimbursable. The related indirect costs total \$238.

The following table summarizes the understated materials and supplies:

<u>Reimbursable Component</u>	<u>Fiscal Year</u>		<u>Total</u>
	<u>2005-06</u>	<u>2006-07</u>	
<u>Materials and Supplies</u>			
Supported costs	\$ 11,335	\$ 9,750	\$ <u>21,085</u>
Mandated percentage	× 21%	× 21%	
Total direct costs	2,380	2,048	\$ 4,428
Total indirect costs	124	114	238
Audit adjustment	\$ <u>2,504</u>	\$ <u>2,162</u>	\$ <u>4,666</u>

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

Report the cost of materials and supplies that have been consumed or expended for the purpose of the reimbursable activities.

The parameters and guidelines (section IV., part D) state:

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

Recommendation

We recommend that the district ensure that all costs related to the mandate are properly reported and 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 testing 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 4—
Understated offsetting
revenues/other
reimbursements**

Our audit determined that the district understated offsetting revenues and other reimbursements by \$7,422. The district understated the California Department of Education (CDE) apportionments by \$ 2,278. The district allocated 19% of the apportionments. However, our calculations of the reimbursable percentages determined that 21% of the STAR apportionments pertain to the NRAT Program. In addition, the district did not offset from the claimed costs the salaries and benefits paid from restricted resources totaling \$5,144.

The following table summarizes the understated apportionments:

	Fiscal Year		Total
	2005-06	2006-07	
CDE apportionments	\$ 63,167	\$ 64,343	\$ 127,510
Mandated percentage	× (21)%	× (21)%	
Apportionment per audit	(13,265)	(13,512)	(26,777)
Claimed apportionments	12,214	12,285	24,499
Total	\$ (1,051)	\$ (1,227)	\$ (2,278)

The following table summarizes offsetting revenues/other reimbursement adjustments:

	Fiscal Year		Total
	2005-06	2006-07	
Apportionment adjustments	\$ (1,051)	\$ (1,227)	\$ (2,278)
Salaries paid from restricted resources	(3,081)	(2,063)	(5,144)
Audit adjustment	\$ (4,132)	\$ (3,290)	\$ (7,422)

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 this claim.

In any fiscal year in which school districts are legally required to, they must reduce their estimated and actual mandate reimbursement claims by the amount of funding provided to them from state and federal Title VI funds appropriated for STAR administration. School districts are not required to use Title I funds to offset administration of the CAT/6 exam.

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 draft audit report increases the reported total revenue offset of \$24,499 by \$2,278 to a total of \$26,777 for both fiscal years for the NRAT 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 reported a 19% offset rate and the audit uses a 21% rate.

The District concurs that a relevant percentage of the CDE funding is an appropriate reduction to testing costs. 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. The District did not claim testing material costs, so if the funding is limited to that purpose, the offset would not be appropriate.

Restricted Funded Salary and Benefits

The draft audit report also reduces the claimed salary and benefits by \$5,144 for both of the fiscal years included in the audit. The draft audit report only identifies this as "offsetting revenues/other reimbursement." Based on the discussion at the exit conference, this is the same type of adjustment made in the STAR audit to offset the allowable staff costs where employee positions are funded by "restricted" funds. The "restricted funds" were defined in the STAR 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 for 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 NRAT Program.

The NRAT Program superseded the STAR program. A portion of the STAR apportionment reimburses school districts for the NRAT materials and activities. 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 CDE's STAR representatives.

Restricted Funded Salaries and Benefits

Based on the time study, we allowed the salaries and benefits for employees identified as NRAT 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 5—
Reporting test results**

The district did not provide board meeting minutes to substantiate the reporting of the CAT/6 test results to the Governing Board. 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 D.) state:

Reporting the results of the CAT/6 test 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 implement the reporting requirements set by the program's parameters and guidelines.

District's Response

The NRAT 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 ISSUE—
Public records
request**

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

District's Response

The District requests copies of all audit work papers in support of Findings 1 and 2 (including time studies) and Finding 4 (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 Findings 1, 2, and 4.

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, 2, and 4 on May 19, 2010, and June 1, 2010.

We also responded to the district's request for all written instructions, memorandums, or other writings in effect and applicable during the claiming period for Findings 1, 2, and 4 in a separate letter dated August 17, 2010.

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

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



BUSINESS SUPPORT SERVICES
Melliga Tholandi
Associate Superintendent
Phone: (858) 521-2778
FAX: (858) 485-1388
mtholandi@powayusd.com

POWAY UNIFIED SCHOOL DISTRICT

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

July 13, 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 National Norm-Referenced Achievement Test (NRAT) Program
Fiscal Years 2005-06 and 2006-07**

Dear Mr. Spano:

This letter is the response of Poway Unified School District to the letter of Jeffrey V. Brownfield, dated June 30, 2010, and received by the District on July 6, 2010, that transmits a copy of your draft audit report of the District's National Norm-Referenced Achievement Test (NRAT) annual reimbursement claims, for the period of July 1, 2005 through June 30, 2007.

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 claims for FY 2005-06 and FY 2006-07

This Finding reconciles the amounts for the NRAT claims as originally filed by the District with the amounts for the revised claims filed by the District in November 2009, after the audit commenced. The opportunity to file the revised claims resulted from amended parameters and guidelines adopted on May 29, 2009, by the Commission on State Mandates with retroactive effect to FY 2004-05. The revised claim amounts are based on the results of the District's time study.

This Finding also reconciles the audited application of the District time study for FY 2005-06 and FY 2006-07 to the original and revised District claim amounts. However, the audit adjustments are made to the original claim amounts rather than to the revised claim amounts. Thus, it does not appear that the Controller has accepted the revised claims as the final District annual claims.

The Controller's recommendation for this Finding is that the District submit revised claims prior to the final filing period in apparent reference to the one-year eligibility period for the original claims. The District filed the original claims within the eligibility period established by the original parameters and guidelines and filed the revised claims within the eligibility period established by the amended parameters and guidelines. It would be impossible for the District to file revised claims within the original eligibility period when the right to file revised claims arises from subsequent amended parameters and guidelines.

Of course, the net dollar effect of the audit adjustments for the two fiscal years included in the audit is the same. The District also filed in November 2009 a first time claim for FY 2004-05, a revised claim for FY 2007-08, and a first time (short-period) claim for FY 2008-09, as a result of the amended parameters and guidelines. Although these subsequent new and revised claims were available to the auditor at the same time as the revised claims for FY 2005-06 and 2006-07 (which are referenced in the draft audit report for purposes of reconciliation only), these other claims were not audited or otherwise recognized as the final annual claims for these fiscal years.

Finding 2 Understated salaries and benefits

This Finding compares the results of the audited application of the time study to the District time study findings. The draft audit report increases the time-study employee salary and benefit costs for the staff time spent implementing the mandate by \$17,748 for FY 2005-06 and \$13,293 for FY 2006-07. The audited allowable time-study costs, although larger than the revised claim amounts, are less than the original claim amounts. These amounts are reconciled at Finding 1.

Documentation

The draft audit report states that the supporting documentation for the original claims is 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 and grade-levels) 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/NRAT 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 3 Understated materials and supplies

The draft audit report increases the claimed materials and supplies costs by \$4,428 in direct costs and \$238 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 testing program now pending decision by the Commission on State Mandates.

Finding 4 Understated offsetting revenues/other reimbursements

The draft audit report states the District understated offsetting revenues and other reimbursements by \$7,422. This consists of two parts:

Testing Program Apportionments

The draft audit report increases the reported total revenue offset of \$24,499 by \$2,278 to a total of \$26,777 for both fiscal years for the NRAT 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 reported a 19% offset rate and the audit uses a 21% rate.

The District concurs that a relevant percentage of the CDE funding is an appropriate reduction to testing costs. 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. The District did not claim testing material costs, so if the funding is limited to that purpose, the offset would not be appropriate.

Restricted Funded Salary and Benefits

The draft audit report also reduces the claimed salary and benefits by \$5,144 for both of the fiscal years included in the audit. The draft audit report only identifies this as "offsetting revenue/other reimbursement." Based on the discussion at the exit conference, this is the same type of adjustment made in the STAR audit to offset the allowable staff costs where employee positions are funded by "restricted" funds. The "restricted funds" were defined in the STAR 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 5 Reporting test results

The draft audit report states that the District did not provide governing board meeting minutes to substantiate the reporting of the NRAT test results and recommended that the District implement the reporting requirements stated in the parameters and guidelines. The NRAT 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.

Public Records Request

The District requests copies of all audit work papers in support of Findings 1 and 2 (including time studies) and Finding 4 (offset of apportionments and restricted funds).

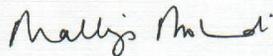
The District requests that the Controller provide the District any and all written instructions, memorandums, or other writings in effect and applicable during the claiming period to Findings 1, 2, and 4.

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 30, 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 School District
Joy Ramiro, Director of Finance, Poway Unified School District
Keith Petersen, President, SixTen and Associates

**State Controller's Office
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<http://www.sco.ca.gov>