



GORMAN LEARNING CENTER

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TO: Charter School Division
Audit Division
Advisory Commission for Charter Schools

FROM: Cecelia J. Cummings, Director of Operations

RE: Resubmission of 2004-05 SB740 Non-classroom Based Funding Determination

DATE: June 29, 2011

The Gorman Learning Center hereby submits the revision of its 2004-05 SB 740 Non-classroom Based Funding Determination to the Charter School Division, Advisory Commission for Charter Schools, and the State Board of Education for reconsideration at its next meeting.

In March of 2007, MGT of America ("MGT") released its report of the audit it performed of the Gorman Learning Center ("MGT Report"). The MGT Report included findings against Gorman Learning Center ("GLC") for information contained in their 2004-2005 SB740 Funding Determination.¹ This funding determination was approved on March 14, 2005 for two years. MGT's calculations alleged that GLC should have qualified for no more than 85% funding for 2004-05 and 2005-06. The primary support for the exception was GLC's lack of supporting documentation for the figures in the original funding determination report. The MGT Report alleged that \$700,239 of revenues was not included in the 2004-2005 funding determination, as well alleging that instructional and related services expenditures were over-claimed. The MGT Report then alleged that GLC should only have qualified for 85% funding.

After MGT presented the MGT Report to the Los Angeles County Office of Education ("LACOE") on April 11, 2007, GLC responded that it would be resubmitting its 2003-2004, 2004-2005 and 2005-2006 SB740 Funding Determination to the State Board of Education for reconsideration. At that time, GLC noted that all allowable expenditures and supporting documentation would be presented to an independent audit firm for review of its SB740 resubmissions.

In order to ensure the most accurate review, GLC prepared its Revised 2004-2005 SB 740 Funding Determination with sufficient backup worksheets to allow the document to be

¹ In October of 2008, GLC resubmitted its 2003-2004 funding determination to the State Board of Education for reconsideration. The SBE's reconsideration awarded GLC 100% funding for 2003-2004. Please see GLC's 2003-2004 resubmission for additional information.

reviewed by auditing firm Vavrinek, Trine, Day & Co., LLP ("VTD"). GLC engaged VTD to review and evaluate the revised 2003-2004, 2004-2005 and 2005-2006 SB 740 Funding Determinations as prepared by GLC. VTD had no previous engagements with GLC for any audit or other services for any of the years since GLC began operations in February 2000.

The Revised 2004-2005 SB 740 Funding Determination worksheets were prepared by GLC from the 2003-2004 detailed general ledger to identify each expense based on the functions and objects as outlined by the California School Accounting Manual ("CSAM") and the Standardized Account Code Structure ("SACS"). This is where GLC was able to substantiate the changes in the figures for the line items on the Revised 2004-2005 SB 740 Funding Determination. As noted, the function assisted GLC in identifying more specifically whether an expenditure was instructional or administrative. Because GLC used a line by line detail to allocate the expenditures into Part II, Section B of the funding determination, GLC is more confident that it is presenting an accurate and complete Revised SB 740 Funding Determination. In addition, VTD tested backup documents for both the revenues and expenditures calculation in order to assure that the expenditures were properly recorded for the Revised 2004-2005 SB 740 Funding Determination. GLC then presented this funding determination revision to VTD, which tested backup documents for both the revenues and expenditures calculation in order to prepare their final report and recommendations for the revised SB 740 Funding Determination Form for 2003-2004. Attached as Exhibit A, please find a copy of the VTD Final Report.

As noted in the VTD Final Report, VTD is confident that the calculations contained in the Revised SB 740 Funding Determination reflect the calculations of the audited financial statements from the same fiscal year.

Changes and the Effects from the Original SB740 for the Resubmission of the SB 740 2004-2005.

Although the MGT Report claimed that there was a lack of documentation to support GLC's SB 740 funding application, GLC did in fact maintain sufficient documentation to determine that the figures on the original SB740 funding determination were calculated based only on object code. Based on these calculations, originally, GLC did not apportion expenses such as salaries and benefits to administration. In addition, the original 2004-2005 SB 740 funding determination did not include the audit adjustments recommended by the independent auditors for the year ending June 30, 2004.

The revised 2004-2005 SB 740 Funding Determination includes the following changes from the original 2004-2005 SB 740 funding determination:

➤ **State Revenues**

State revenues increased by \$34,567 (from \$7,145,751 to \$7,180,318) to include the audit adjustment from the year ending June 30, 2004 independent financial audit report by Vicenti Lloyd & Stutzman, LLP (VLS) for staff development revenues. Attached is Exhibit B identifying the Adjusting Journal Entry Report from VLS and the adjustments necessary to be made for the fiscal year ending June 30, 2004.

➤ **Local Revenues**

Local revenues increased by \$665,672 (from \$1,691,830 to \$2,357,502). This reflects the inclusion of the special education revenues described herein. Specifically, in the June 30, 2004 Independent Financial Audit of GLC, prepared by Vicenti Lloyd and Stutzman, LLP ("VLS Report"), there is a prior year restatement of \$337,970 reflecting the overstatement of special education revenue in the prior year (2002-2003) (while MGT reported that GLC received \$839,113 in special education monies that should have been included in GLC's revenues, in fact GLC never received \$337,970 of those special education funds). This overstatement was reversed out in the 2003-04 year due to unsubstantiated special education costs. However, the higher amount of \$350,742 was included in GLC's revenues by the MGT auditors; documentation of this reduction is journal entry JV-04-037, prepared on January 28, 2004 and reversing \$350,742.00 for the prior year correction of special education receivables. Attached as Exhibit C, please find a copy of Journal Entry JV-04-037. In addition, there were several audit adjustments that were not included in the financials reported on the original SB740 Funding Determination as identified on the VLS Adjusting Journal Entry Report Exhibit B.

➤ **Instructional Salaries and Benefits**

Certificated salaries and benefits expenditures decreased by \$660,131 (from \$5,388,773 to \$4,728,642), as a result of moving the allocation of a portion of the administration salaries and benefits out of instructional to administrative and moving the costs associated with special education providers from salaries to instruction support contracts.

Classified salaries and benefits expenditures decreased by \$270,861 (from \$591,359 to \$320,498) which as with the certificated salaries and benefits allocated the costs of the office and administration out of instructional to administrative.

➤ **Instructional Books, Supplies and Equipment**

Books and supplies expenditures decreased by \$192,479 (from \$1,074,774 to \$882,295) as a result of a detailed review of the general ledger by both object and function to clearly identify whether specific costs were instructional, operating or administrative, as well as moving certain costs from books & supplies to services for instructional service contracts. In addition, the audit adjustment for textbook accruals as identified on the Adjusting Journal Entries (Exhibit C) was not recorded for the year ending June 30, 2004.

➤ **Contracts for Instructional Services**

Instructional service contracts expenditures decreased by \$54,994 (from \$150,960 to \$95,966) as a result of a detailed review of the general ledger by both object and function to clearly identify whether specific costs were instructional, operating or administrative, as well as from moving certain books & supplies costs to the services category. The original figure of \$150,960 corresponded to the depreciation costs on the financials and was reported on the original SB740 Funding Determination as an instructional services contract, when the expenditure should have been reported as an administrative expense.

➤ **Contracts for Instructional Support**

Instructional support contracts expenditures increased by \$465,635 (from \$172,643 to \$638,278) as a result of moving special education provider contracts from the instructional certificated salaries and benefits category to the instruction support contracts category.

➤ **Instruction Related Operating Costs**

Instructional-related operating costs decreased \$132,154 (from \$227,519 to \$95,365) as the result of moving costs that should previously have been allocated by function to administrative services and operating costs.

➤ **Operations and Facilities Classified Salaries & Benefits**

Classified operations salaries and benefits expenditures increased by \$55,513 to include the support costs from the staff for maintenance, janitorial and warehouse staff.

➤ **Operations Books, Supplies and Equipment**

Operations books and supplies expenditures increased by \$6,835 for the operating supplies used by the support staff at the warehouse and repair & maintenance supplies.

➤ **Operations and Facilities Services and Operating Costs**

The services and operating expenditures decreased by \$19,743 (from \$177,201 to \$157,458) which reflect the lease payments, maintenance services and utilities for the learning center facilities operated throughout the five counties which GLC served during 2003-2004. A portion of this decrease is reflected in the increase in the operations supplies and equipment costs, which was identified by the detailed review of the general ledger by both object and function.

➤ **Administrative Salaries and Benefits**

Certificated salaries and benefits expenditures increased by \$173,205 (from \$34,871 to \$208,076) the revised calculation allocates a portion of the administrator salaries and benefits out of the instructional category to administrative salaries and benefits. The original application included only the allocated portion of the executive director's salary, whereas the revised figure includes the allocated portion of the executive director's salary as well as the salaries of the Educational Resource Administrators (ERAs).

Classified salaries and benefits expenditures increased by \$290,349 (from \$420,421 to \$710,770) which as with the certificated salaries and benefits allocated the costs of the office and administration out of the instructional category to the administrative category.

➤ **Administrative Books, Supplies and Equipment**

Administrative books and supplies expenditures decreased by \$79,121 (from \$210,468 to \$131,347) as a result of a detailed review of the general ledger by both object and function to clearly identify the costs to instructional, operating or administrative categories, as well as from books & supplies to services.

➤ **Administrative Contract Services**

The administrative services contracts expenditures decreased by \$18,663 (from \$23,663 to \$5,000) as there was only one contract that was identified for administrative assistance. All other administrative services were performed in-house for the 2003-2004 year.

➤ **Administrative Operating Services and Costs**

The administrative operating services expenditures increased by \$448,336 (from \$22,790 to \$471,126) for the identified costs of board stipends, administrative office costs, and conferences, insurance, mileage, and other costs as a result of a detailed review of the general ledger by both object and function to clearly identify the costs to instructional, operating or administrative as well as from books & supplies to services.

➤ **Other Outgo**

The other outgo expenditures were decreased from \$1,657,223 from the original reported \$1,657,223, which increased the total expenditures. This amount was moved to the Total Excess Revenues Reserve for Facilities Acquisition, which reserved an amount for the purchase of the current administrative building in the 2005-2006 year.

Facility Mitigation

The original SB 740 Funding Determination did not request consideration of any Facility Mitigation costs. We are asking that this option be considered in the reconsideration because GLC operated seven learning centers and campuses that were used by GLC students during the 2003-04 and 2004-05 school year, which resulted in increased costs for staffing and facilities expenses that were incurred during the 2003-2004 school year. The use of the facility mitigation would allow these facility support costs to be included with our instructional costs and to have the additional 6.94% added to the 68.98% instructional for total instructional costs of 75.92%

Funding Percentages

The original SB740 Funding Determination for 2004-05 resulted in a percentage of 60.29% for certificated staff costs and a percentage of 83.57% for expenditures on instruction and related services. This resulted in 100% funding approval for two years.

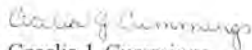
However, after the internal review by GLC and the subsequent review by VTD, for the resubmission of the 2004-05 Funding Determination, certificated staff costs are at 54.67% and the expenditures for instructional and related services are at 68.98% without the facility mitigation option. In the MGT of America, Inc. report, their review reflected that the instructional and related services expenditures would be at 72.6%. With the facility mitigation option, our instructional costs would be increase by 6.94% to 75.92%, which would be in agreement with the MGT report for 85% for the 2004-05 Funding Determination.

As identified by the funding determination eligibility (see 5 CCR Section 11963.4(a)(2)), when the certificated staff compensation equals or exceeds 50% of total public revenues and the total instructional and related services costs equals or exceed 70% but less than 80%, then an 85% funding is allowable. As GLC falls within these parameters with the facility mitigation option, we feel that this would be a fair and reasonable request.

Conclusion

GLC is asking the California Department of Education staff, the ACCS and the State Board of Education to review our 2004-2005 Revised SB740 Funding Determination as prepared to be consistent with the recommendations of MGT and the comprehensive review by VTD, for consideration for an 85% funding level. Should CDE staff need any additional information related to this resubmission, please contact GLC immediately. GLC understands that the original SB740 Funding Determination was prepared with inconsistencies in recording and reporting and accepted erroneously for 100% and that this would require GLC to repay the State the difference. GLC assures you that these recording and reporting inconsistencies have been corrected and are no longer occurring and that we are making all efforts to clear any past errors. GLC is asking for your support and approval to assist us in moving forward with our current families, students and staff.

Sincerely,


Cecelia J. Cummings
Director of Operations

Attachments:

2004-05 Nonclassroom-Based Funding Determination
Exhibit A - VTD review letter and worksheet
Exhibit B - Adjusting Journal Entry for 2003-2004 Special Education
Exhibit C - Adjusting Journal Entry Report from Vicenti Lloyd & Stutzman, LLP