ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS

Report to the California State Legislature

July 1, 1998, through June 30, 1999

KATHLEEN CONNELL
California State Controller

June 1999

June 30, 1999

To the Members of the California State Legislature:

I am pleased to announce that the *Annual Financial Report of K-12 Schools* for 1999 is complete. This year's report will be available via the Internet on the State Controller's Office homepage at http://www.sco.ca.gov on June 30, 1999. The report summarizes the financial and program compliance status of the state's school districts and county offices of education for fiscal year (FY) 1997-98. As such, the report will be useful in helping the Legislature and the State Superintendent of Public Instruction plan for California's future educational needs.

The financial health of most of the state's 994 school districts and 58 county offices of education continued to improve during 1998-99. For the seventh consecutive year, school districts overall spent less money than they received — an indication that districts are maintaining reserves and spending within their means. Only three districts had very low fund reserves — less than 1% of their general fund expenditures.

Despite the general improvement in fiscal well-being, however, key financial indicators reveal areas of concern involving some school districts and county offices of education. The number of school districts engaged in multi-year deficit spending increased substantially — from 78 districts in FY 1996-97 to 123 districts in FY 1997-98, and the number of districts and county offices of education filing negative or qualified interim certifications nearly doubled, from eight in 1997-98 to 15 in 1998-99, indicating possible difficulty in meeting financial obligations.

The state and federal compliance findings decreased from the prior year. Approximately 40% of the compliance findings related to deficiencies in attendance accounting. The school districts' annual independent audit reports also found that 18% of the 875 elementary school districts participating in the class size reduction program failed to fully comply with program reporting requirements. In addition, 32% of the 994 school districts and 58 county offices of education did not comply with the public hearing requirement of the state instructional materials fund.

Hard copies of this publication can be obtained from my office. Please send your order to:

California State Controller's Office
Division of Audits
Attention: Victoria Uyeda
P.O. Box 942850
Sacramento, California 94250-5874

or by e-mail to: vuyeda@sco.ca.gov

If you have any questions about ordering the report, please contact Ms. Uyeda at (916) 445-7886.

Please direct any comments regarding the content of the report to Jeffrey Brownfield, Chief, Financial Audits Bureau, at (916) 324-1696.

Sincerely,

KATHLEEN CONNELL
California State Controller

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Executive Summary

The State Controller has broad authority to oversee state and federal funding of California's public schools from kindergarten through the 12th grade (K-12). The State Controller's goal is to promote greater fiscal accountability by local school districts.

This oversight responsibility includes reviewing annual school district audit reports, maintaining a database with financial and statistical data on school district audit reports, reviewing and certifying the audit reports submitted by independent auditors, tracking financially troubled school districts identified by the interim reporting process, providing guidance and assistance to independent auditors through the State Controller's Office *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, and conducting financial and program audits at various school districts.

This year's report contains the following key findings:

- FY 1997-98 marked the seventh consecutive year that California's school districts as a whole did not spend more money than they received — an indication that districts are maintaining reserves and spending within their means.

- No school district requested an emergency loan from the State during FY 1998-99. The three school districts with outstanding emergency loans are current on their repayment schedules.

- Three districts had very low fund reserves (1% or less of their general fund expenditures) in FY 1997-98, compared to five districts in the previous year.

- The number of districts engaged in multi-year deficit spending increased significantly during fiscal year (FY) 1997-98. Compared to 78 districts in the prior year, 123 districts in 1997-98 engaged in multi-year deficit spending — a 58% increase. Although some school districts may have legitimate needs to engage in multi-year deficit spending (such as for building projects), this practice is often an indication that a district is facing financial difficulty.

- Long-term borrowing increased by $938 million during FY 1997-98 to a total of $3.05 billion compared to $2.12 billion in the prior year, a 44% increase.

- The number of districts filing negative or qualified certifications relating to their ability to meet their financial obligations for the current and subsequent two fiscal years nearly doubled — from eight in 1997-98 to 15 in 1998-99. Fourteen school districts filed qualified interim financial reports and one school district filed a negative interim financial report in the second reporting period of FY 1998-99, indicating that they may not meet their current and future financial obligations.

- There was a minor decrease over the prior year in the number of state and federal compliance findings in FY 1997-98. Approximately 40% of the compliance findings related to deficiencies in average daily attendance accounting. Average daily attendance (ADA) is the primary determinant of the amount of funding a school district receives from the State.

- The school districts' annual audit reports disclosed 155 audit findings for the 875 elementary school districts participating in the class size reduction program. There were also 438 audit findings for the 994 K-12 school districts and 58 county offices of education that received state instructional materials funds.

Most of the information used to prepare this report is compiled from annual audit reports prepared for individual school districts by independent certified public accountants for FY 1997-98. Additional data came from interim financial report certifications submitted by school districts during FY 1998-99 and from audits conducted by the State Controller's Office.

Introduction

The State Controller's Office oversight role in the K-12 fiscal process is administered by its Division of Audits. Oversight activities focus primarily on three areas: financial indicators, program compliance, and quality control.

The State Controller's Office also has responsibilities relating to the financial oversight of school districts (including county superintendents of schools), in accordance with Education Code Section 14500. These responsibilities include:

- Publishing an annual audit guide,[1] which prescribes financial statements and other information that should be included in each school district's audit report. This publication provides guidance to the independent auditors conducting school district audits;

- Reviewing each school district's audit report submitted to the State and performing the associated follow-up actions, including compliance audits;[2]

- Tracking notifications from the school districts that identify substantial fiscal problems at interim reporting periods;

- Conducting selected school districts' annual financial and compliance audits as a condition of the districts' receiving emergency state apportionments;

- Ensuring that satisfactory arrangements for an annual audit have been made for each school district; and

- Compiling pertinent data and reporting annually to the California State Legislature and the California Department of Education.

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[1] *Standards and Procedures for Audits of California K-12 Local Educational Agencies (K-12 Audit Guide)* is published by the State Controller's Office. The Education Code states that the Controller, in consultation with the California Department of Education, the California Department of Finance, a representative of the county offices of education, and representatives of the California Society of Certified Public Accountants, shall prescribe the statements and other information to be included in the audit reports filed with the State and shall develop an audit guide to carry out the purposes of this chapter. Prior to the issuance of the audit guide, the Controller shall submit a copy of the audit guide to the Department of Finance for review to ensure that all compliance requirements are properly included.

[2] Compliance audits are conducted to determine whether categorical state and federal program funds are expended in accordance with the applicable program laws and regulations. These program funds (restricted revenues) comprise, on average, approximately 25% of a school district's total funds.

Financial Indicators

Overview

Assembly Bill 1200, enacted in 1991 (Chapter 1213), put school district finances under the control of county offices of education and the California Department of Education. The law protects the public's interest in education by giving county offices of education specific responsibility for fiscal oversight of districts within their jurisdictions.

Key financial indicators representing the financial health of school districts are presented in this chapter. Most of the indicators use data from annual audit reports prepared by independent certified public accountants (CPAs) for FY 1997-98. State law allows school districts approximately six months after the end of a fiscal year to submit an independent audit report to the State Controller's Office and the California Department of Education. Additional data comes from interim financial report certifications submitted by school districts during FY 1998-99 and from audits conducted by the State Controller's Office. Each section of the report specifies the fiscal year for which the data was obtained.

Interim Reporting

School districts in California are required to file interim reports certifying their financial health to the governing board of the district and county office of education. These interim reports must be completed twice a year by every school district (to cover the periods of July 1 through October 31 and November 1 through January 31), and must be reviewed by the appropriate county superintendent of schools. The interim reports contain financial and program information on standardized forms as prescribed by the State Superintendent of Public Instruction.

One of the following three certifications must be designated by the school district or county office of education when certifying the district's fiscal stability on the interim report.

Positive: A school district or county office of education that **will** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Qualified: A school district or county office of education that **may not** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Negative: A school district or county office of education that **will not be able to** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

School districts that file qualified or negative interim reports work with their county superintendent to implement corrective action. Copies of the qualified or negative certifications are forwarded to the State Controller's Office and the State Superintendent of Public Instruction.

More districts filed qualified or negative certifications

During FY 1998-99, 13 of the 994 school districts and 58 county offices of education in the state filed a qualified certification and one district filed a negative certification for the first period interim report. Of the 14 districts, 8 filed a second period qualified or negative interim report; therefore, 6 districts were able to take corrective action. However, an additional 7 districts filed qualified second period interim reports, for a total of 15 districts filing qualified or negative certification for the second period interim report (see Table 1). Thus, 21 districts reported qualified or negative classifications in at least one of the two periods (see Appendix A). Three school districts remained on the list from the prior year. School districts filing qualified or negative interim reports for two or more years are monitored closely by the State Controller's Office through continuous contact with the California Department of Education.

The most common causes of fiscal problems cited in qualified or negative certifications were the following:

- Inadequate reserves;
- Deficit spending;
- Underestimated expenditures;
- Overestimated revenues;
- Declining enrollment; and
- Long-term debt/other obligations.

Table 1

SECOND INTERIM REPORTING HISTORY				
	1995-96	**1996-97**	**1997-98**	**1998-99 [1]**
Positive	1,041	1,039	1,049	1,037
Qualified	17	18	7	14
Negative	1	0	1	1
Totals	1,059	1,057	1,057	1,052

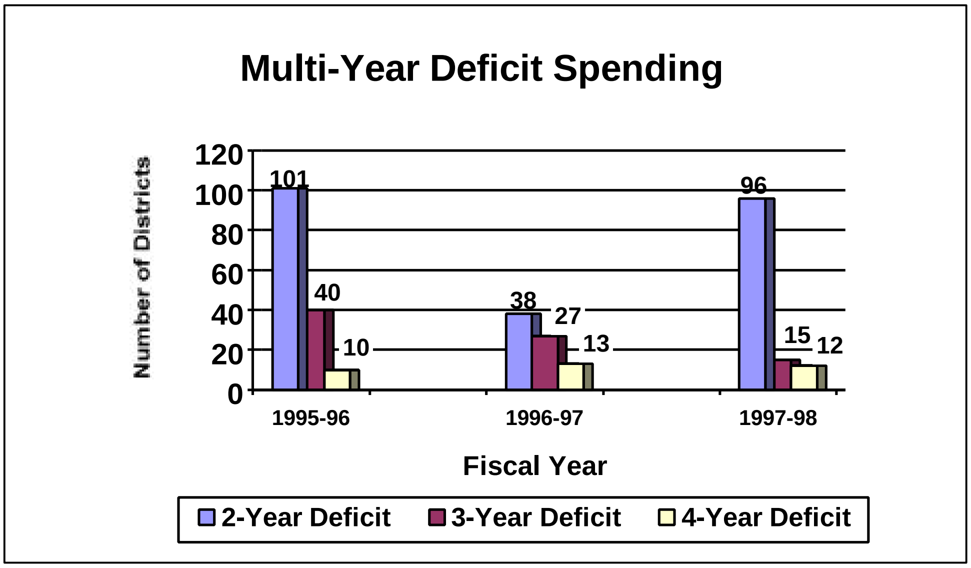
[1] Additional information regarding districts that filed qualified or negative interim reports during FY 1998-99 is provided in Appendices A and B.

Deficit Spending

During FY 1997-98, the number of districts relying on multi-year deficit spending increased substantially (see Table 2). The biggest increase was for two-year deficit spending (58 districts, or 153%).

School district multi-year deficit spending increased substantially, while single-year deficit spending decreased slightly

Table 2



During FY 1997-98, single-year deficit spending decreased slightly from 255 districts to 244 districts in the prior fiscal year. Deficit spending patterns are closely monitored by the county offices of education and the California Department of Education to determine whether the districts are facing serious financial problems.

Emergency Apportionments

When the governing board of a school district determines that the district's revenues are not sufficient to meet its current year obligations, it may request an emergency apportionment through the State Superintendent of Public Instruction. As a condition of acceptance of the loan, the Superintendent will appoint a trustee to monitor and review the operation of the district. An insolvent district also may request and receive an emergency apportionment. It, too, will be assigned a trustee; the trustee will help the district to develop a five-year recovery plan.

Emergency loan repayments current

During the past 17 years, the state has granted more than $70 million in emergency loans to school districts. Currently, three districts have outstanding loans (see Table 3). All three districts — West Contra Costa, Coachella Valley, and Compton Unified school districts — are currently meeting their repayment schedules. Collectively, they account for 78% of the emergency loans ($55.7 million) issued within the last nine years.

Table 3

DISTRICTS WITH OUTSTANDING LOANS				
Fiscal Year	**School District**	**Amount of Loan**	**Outstanding Balance**	**Final Repayment Date**
1990-91	West Contra Costa Unified	$28.5 million	$21.3 million	June 30, 2008
1992-93	Coachella Valley Unified	$7.3 million	$2.7 million	December 31, 2001
1993-94	Compton Unified	$19.9 million	$7.2 million	June 30, 2001

General Fund Revenues and Expenditures

FY 1997-98 marked the seventh consecutive year in which total school district general fund revenues exceeded expenditures (see Table 4). The number of districts able to accomplish this in FY 1991-92 was 526 (49%); in FY 1992-93, 757 (71%); in FY 1993-94, 636 (60%); in FY 1994-95, 504 (48%); in FY 1995-96, 803 (76%); in FY 1996-97, 724 (68%); and in FY 1997-98, 685 (65%).

As school districts continue to spend less than they receive, they are able to increase their total fund balance, or surplus. The cumulative surplus for California school districts totaled $3.63 billion at the end of FY 1997-98. That amount consisted of an increase of $876 million in total revenues over expenditures at the end of FY 1997-98. The surplus at June 30, 1998, increased a net $390 million over June 30, 1997, after adjustments for other sources and uses, such as expenditure reductions, planned reductions, and unrealized revenues. As part of the total fund balance, the districts are to maintain reserves as a defense against economic uncertainties. The California Department of Education issues guidelines regarding the amount of reserve each district should maintain, based on its total average daily attendance.

Table 4

SCHOOL DISTRICT GENERAL FUND REVENUES AND EXPENDITURES (IN BILLIONS)	Fiscal Years						
	1991-92	**1992-93**	**1993-94**	**1994-95**	**1995-96**	**1996-97**	**1997-98**
Revenues	**$22.758**	**$23.507**	**$24.531**	**$24.955**	**$26.746**	**$29.778**	**$32.893**
Expenditures	**22.601**	**22.917**	**23.865**	**24.729**	**26.026**	**29.040**	**32.017**
Surplus	**$ .157**	**$ .590**	**$ .666**	**$ .226**	**$ .720**	**$ .738**	**$ .876**

General Fund Balances

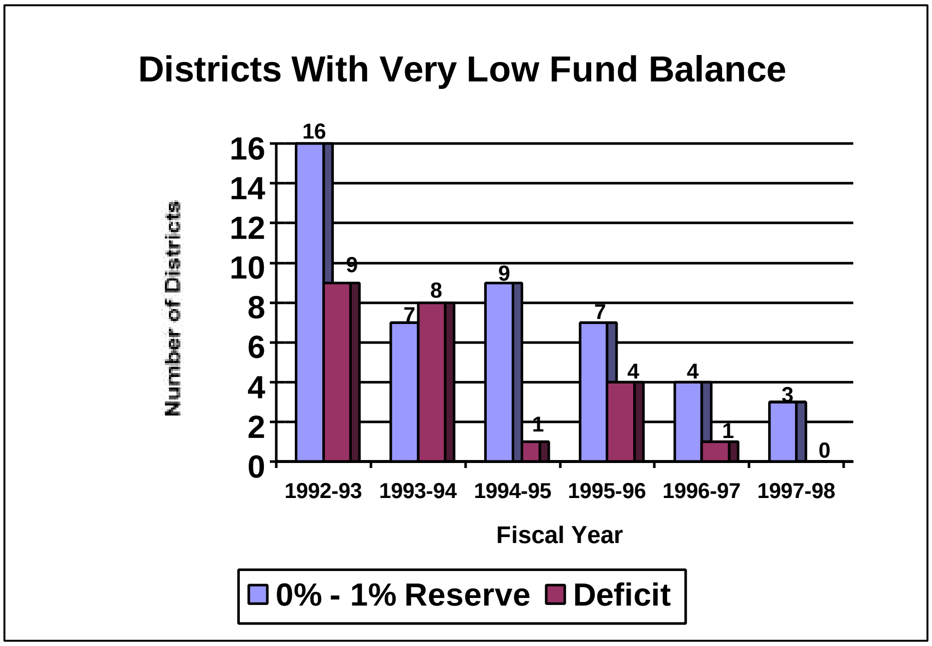
School districts report to county offices of education on projected general fund balances and reserve levels for the current period and two subsequent years in their interim reports. The primary purpose of this reporting is to identify potential deficit spending early in the process so the trend can be reversed.

Number of districts with very low reserves remained low

The number of school districts with low fund balance reserves or deficit balances remained low. At the end of FY 1997-98, three of 994 school districts and 58 county offices of education had low fund balance reserves (1% or less of general fund expenditures) (see Table 5).

There were only three districts with very low fund balance reserves and no districts with a negative fund balance. This is a steady improvement over the last six years in the number of districts with very low reserves from the high of 25 in FY 1992-93 to three in FY 1997-98.

Table 5



Long-Term Borrowing

Generally, long-term debt is issued by districts to fund the purchase, construction, or lease of buildings and equipment; to refinance existing debt; or to buy land for future use. In the past, it was not uncommon for financially troubled districts to issue long-term debt in order to finance current operations.

School districts' long-term borrowing continues to increase significantly

During FY 1997-98, school districts issued $3.05 billion in long-term debt, an increase of $938 million over the prior year (44%). Long-term debt financing included:

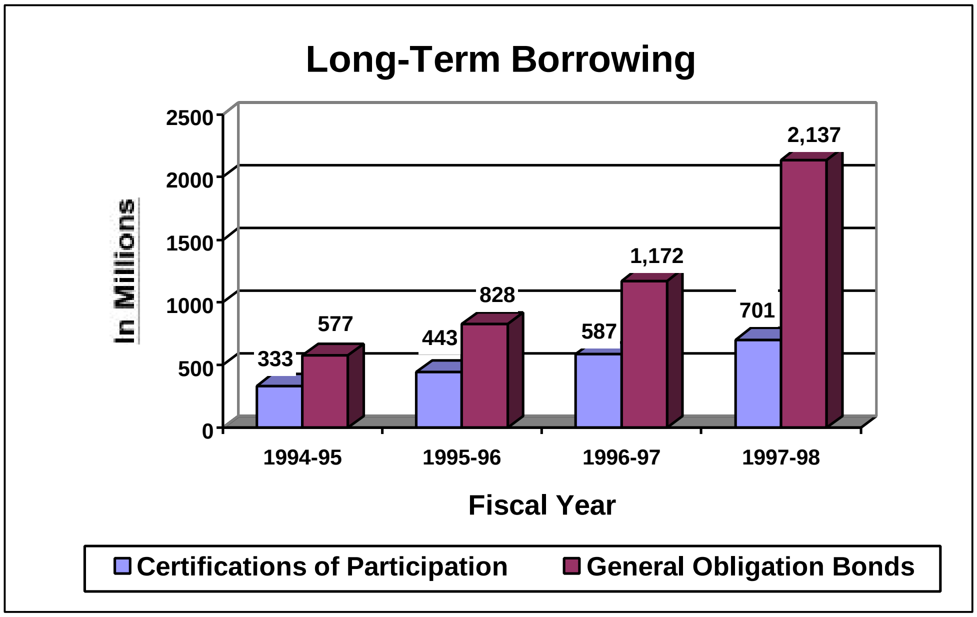
- **Certificates of Participation ($701 million, or 23%)** — a financing technique that provides long-term financing through leasing of school facilities, such as buildings, with an option to purchase or a conditional sales agreement.

- **General Obligation Bonds ($2.137 billion, or 70%) —** bonds secured by the full faith and credit of the district. These long-term obligations generally are issued at more favorable rates than other types of debt because of their preferred status — that is, they are secured by the taxing authority of the district.

- **Limited Tax Obligation Bonds ($215 million, or 7%)** — a financing technique that provides long-term financing of capital projects. The bonds are repaid from incremental taxes on property in a redevelopment area.

School districts issued $2.838 billion in certificates of participation and general obligation bonds during FY 1997-98, an increase of $1.079 billion (61%) over the prior year's $1.759 billion (see Table 6).

Table 6



Financing through certificates of participation increased by $114 million, and financing through general obligation bonds increased by $965 million over the prior year. The certificates of participation were issued by 58 school districts during FY 1997-98.

Although the issuance of certificates of participation increased during FY 1997-98, the trend is for the districts is to make greater use of general obligation bonds. Certificates of participation accounted for 23% of long-term borrowing in FY 1997-98 — a 5% decrease from 28% in the previous year. In comparison, general obligation bonds accounted for 70% of long-term borrowing in FY 1997-98 — an increase of 15% over FY 1996-97.

Lottery Revenues

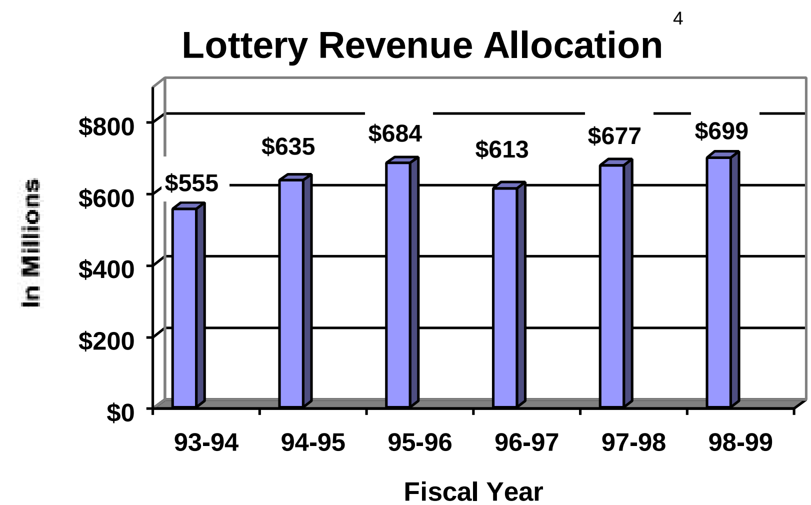
Lottery revenues increased slightly

The allocation of lottery revenues to K-12 school districts is based on a percentage of total lottery sales for the year. Under state law, a minimum of 34% of lottery sales must be distributed to school districts and community colleges. The division of this 34% between K-12 school districts and junior colleges fluctuates annually.

The amount is distributed to each district based on its K-12 average daily attendance. The data regarding sales and allocations are maintained by the State Controller's Office and the California State Lottery.

Lottery revenue allocated to school districts increased due to higher sales. This was the second year of increase after a significant decrease in FY 1996-97. Revenue for FY 1998-99 is projected to increase by 3.25% over 1997-98 to $699 million[3] — about $117 per K-12 average daily attendance (see Table 7).

Table 7



[3] The lottery revenue information is obtained from the California Department of Education, based on State Lottery projections.

[4] Amount for 1998-99 is estimated; all other amounts are actual.

Program Compliance

Overview

The State Controller's Office also reports on program compliance issues as part of its review of annual audit reports, overall certification process, and associated follow-up actions. In addition, the State Controller's Office conducts compliance audits.

Compliance Findings

School district auditors determine whether the districts and joint powers entities (JPEs) have complied with state and federal laws and regulations that may have a material effect on the financial position and operations of the organization or program(s) under audit. The JPEs are formed to provide a joint service to a group of districts and are governed by a board consisting of a representative from each member district. When a school district or JPE is not in compliance with applicable laws and regulations, the findings are communicated in the audit report.

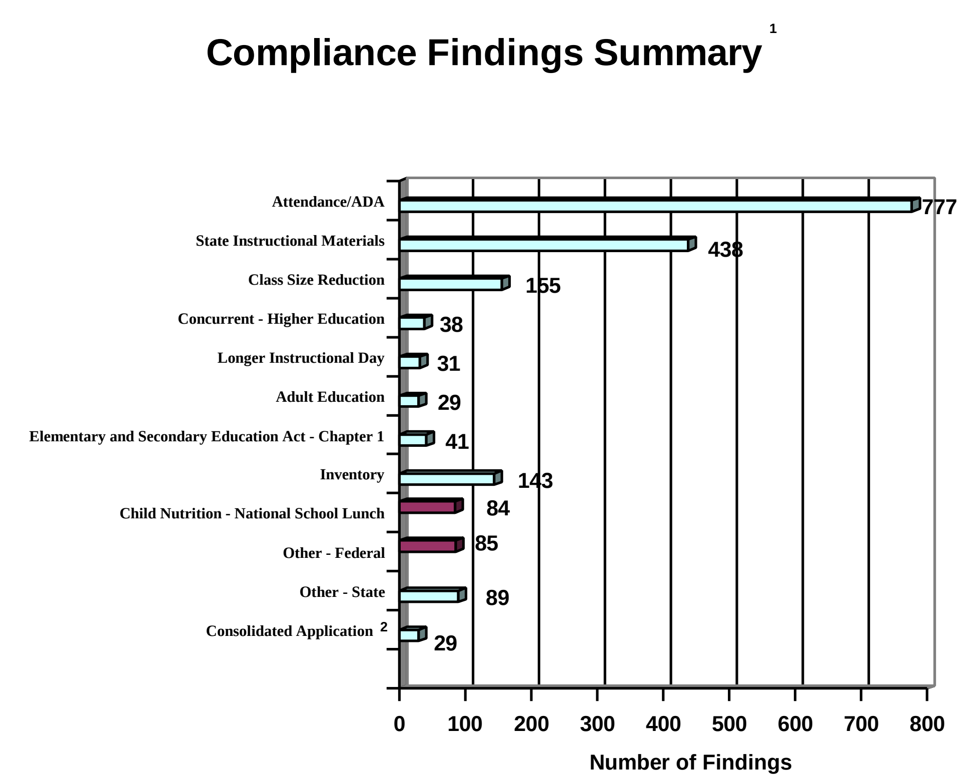
The number of compliance findings contained in FY 1997-98 school district financial reports submitted by CPAs decreased from the prior year. There were 1,939 compliance findings in 1997-98, a 7.05% decrease from 2,086 reported in FY 1996-97 (see Appendix D). The number of attendance accounting findings decreased by 372 (from 1,149 to 777, or 32.4%) from the prior year.

Some of the problems identified in the compliance findings can have a fiscal impact on district operations by causing a loss of state and federal funding. Of the 1,939 audit findings, 1,729 (89%) pertained to state programs and requirements; 210 (11%) of the findings pertained to federal programs and requirements (see Table 8). Attendance-related findings accounted for 40% of compliance findings. The attendance findings were related to errors in:

- Verifying, documenting, and recording excused and unexcused absences;
- Preparing independent study contracts;
- Recording excused absences;
- Obtaining required approvals for attendance accounting systems;
- Having attendance registers/scantrons signed by the teacher;
- Retaining documentation/records; and
- Reconciling attendance reports to supporting documentation.

The 1997-98 school district audit reports also found that 18% of the 875 elementary school districts in the state participating in the class size reduction program did not fully comply with program reporting requirements. The audits identified 155 findings relating to the class size reduction program. Most of the findings pertained to inaccuracies in reporting class size totals and daily enrollments, while others stemmed from the failure of districts to document teacher training or to accurately complete class size reduction facility applications. The audits also disclosed 438 findings pertaining to the state instructional materials fund. Over 75% (338) pertained to districts holding a public hearing on instructional materials after June 30, 1997.

Table 8



[1] See Appendix D
[2] A consolidated application is an application filed by a district with CDE to obtain funding for certain state and federal categorical programs.

Reporting of Findings

Annual audit reports by CPAs are the primary source of information regarding a school district's financial stability and its compliance with state and federal program requirements. Noncompliance with program laws and regulations is not always included in the audit reports. Some of these problems were either reported to the school district in the independent auditor’s management letter or were undetected by the independent auditor.

Build-Upon Audits

The Single Audit Act of 1984, as amended in 1996, requires agencies that perform compliance audits to build upon the school district audits performed by independent CPA firms to avoid duplication. As a fiscal oversight agency, the State Controller's Office pursues unreported issues through supplemental audits, commonly called build-upon audits, and through other surveys of school districts' business and accounting practices. As a general rule, State Controller's Office auditors review the working papers of single audits performed by independent CPAs prior to conducting a build-upon compliance audit or survey.

Build-upon audits disclosed additional program deficiencies

In FY 1998-99, the State Controller's Office performed build-upon audits and fiscal surveys mainly in the area of attendance accounting, which includes adult education, and special education. Based upon the results of the State Controller's build-upon audits, additional program deficiencies were discovered that were not reported by the districts' independent auditors.

Principal audit findings

The State Controller's Office audits of average daily attendance (ADA) for adult education and special education disclosed the principal audit findings listed below. The California Department of Education is responsible for following up on the findings to ensure that they are properly resolved.

Adult Education – Concurrent Enrollment

- The district claimed ADA for physical education classes.

Special Education

- The district did not comply with state and federal record retention requirements.
- The district overstated its designated instructional services units.
- The district lacked documentation for special day classes and resource specialist program units.
- The district did not have adequate documentation to fully support pupil counts reported to California Department of Education.
- The district did not have adequate documentation for the special education master plan ADA.
- There were errors and inconsistencies in district's teachers' registers.
- A special day teacher did not have an appropriate credential.
- There was a lack of documentation to support district's expenditures reported on the Annual Program Cost Data Report.
- There were errors in reporting of nonpublic school costs.
- The district could not document that it completed an individualized education program (IEP) or had evidence of a student transfer to another school district.

Quality Control

Overview

The State Controller, under Education Code Section 14504, reviews and certifies the annual independent audit reports submitted by each school district, county office of education, and joint powers entity (JPE) for compliance with audit guidelines set out in the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies (K-12 Audit Guide)*.

Audit Report Certifications

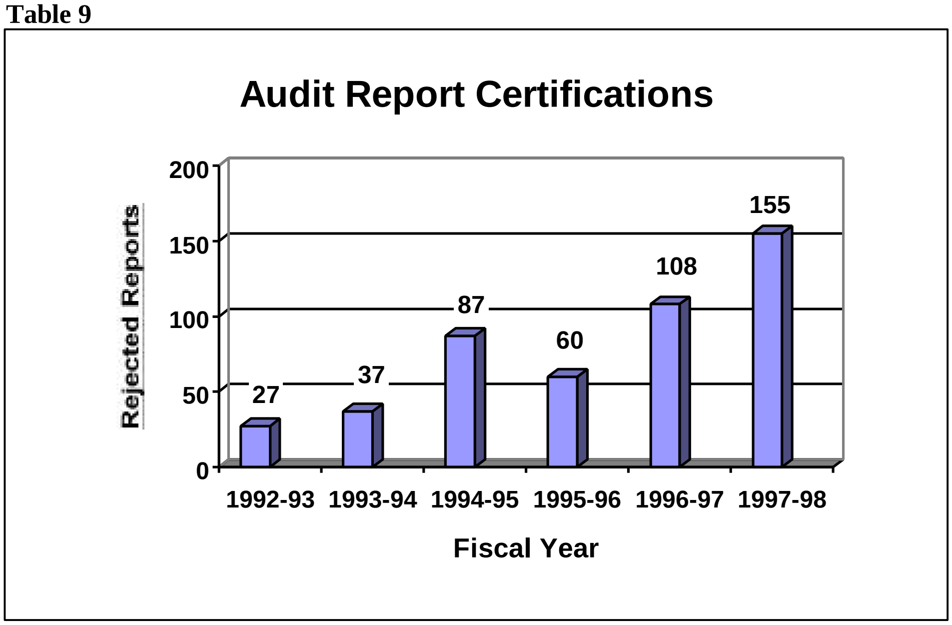
The State Controller's Office determines whether audit reports conform to reporting provisions of the *K-12 Audit Guide* and provides notification to each school district, county office of education, independent auditor, and the State Superintendent of Public Instruction regarding the acceptance or rejection of each report.

For FY 1997-98, 85% of the audit reports were accepted; the remaining 15% were rejected upon initial review. The rejected audit reports were subsequently accepted after the independent auditors made requested corrections. Rejection of the auditor's report is accompanied by a penalty whereby the independent auditor does not receive the 10% service fee retained by the district until the audit report has been corrected and certified by the State Controller's Office. In addition, if an independent auditor has had a report rejected (and not subsequently corrected) for the same district for two consecutive years, the auditor may be referred to the State Board of Accountancy for professional review.

The number of rejected reports increased by 47 (108 to 155) from the prior year, a 44% increase (see Table 9). The rejections resulted mainly from errors in meeting state compliance requirements, in coding and quantifying the audit findings, and in disclosing State Teachers' Retirement System pension notes. Other rejections were due to the state instructional materials fund not being audited.

Significant increase in rejected audit reports

Table 9

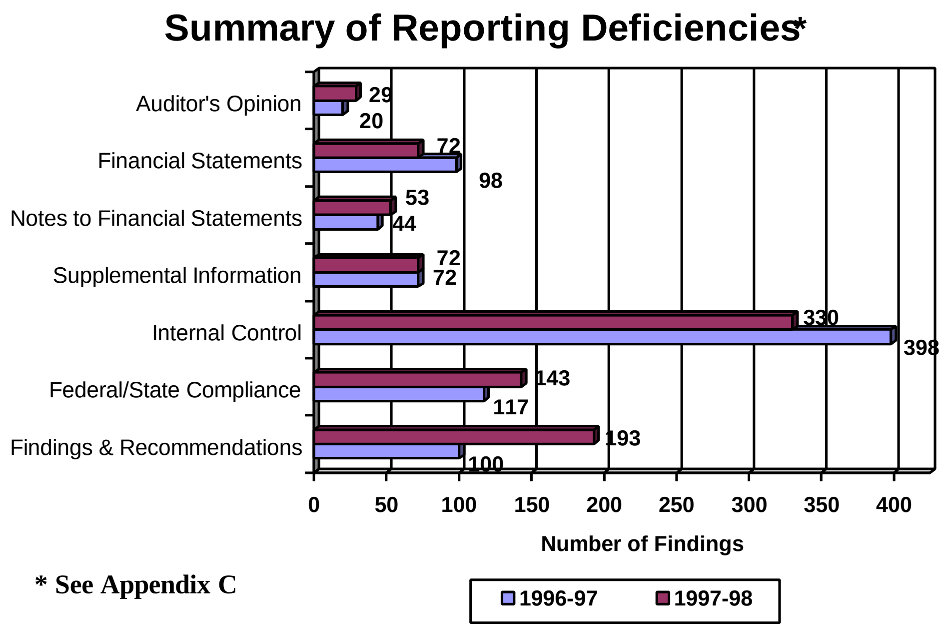


Reporting Deficiencies

Overall reporting deficiencies increased slightly

Upon initial review, the State Controller's Office certified 897 (85%) of the 1,052 audit reports submitted by independent CPAs for FY 1997-98. The certification of an audit report means that the State Controller's Office agrees that it fairly represents the financial status of the district and the audit work performed by the CPA.

Table 10



*** See Appendix C**

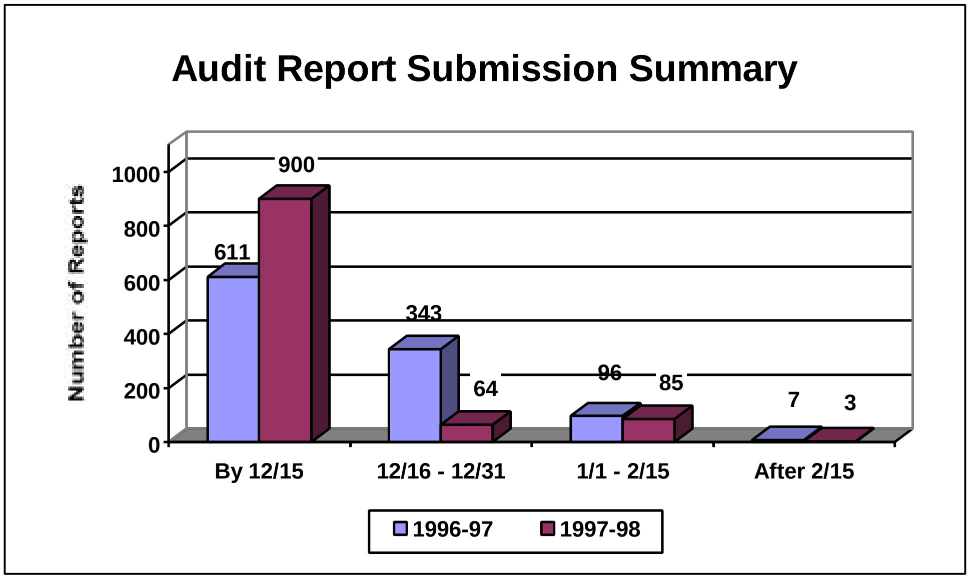
The number of reporting deficiencies in a variety of report areas increased slightly. For FY 1997-98, there were 892 reporting deficiencies, an increase of 43 from the prior year (see Table 10).

Timely Submissions

Audit reports for the preceding fiscal year must be filed with the State Controller's Office, the California Department of Education, and the county superintendent of schools by December 15. Filing deadline extensions may be granted, but only under extraordinary circumstances.

Significant increase in number of annual reports submitted by the deadline

Table 11



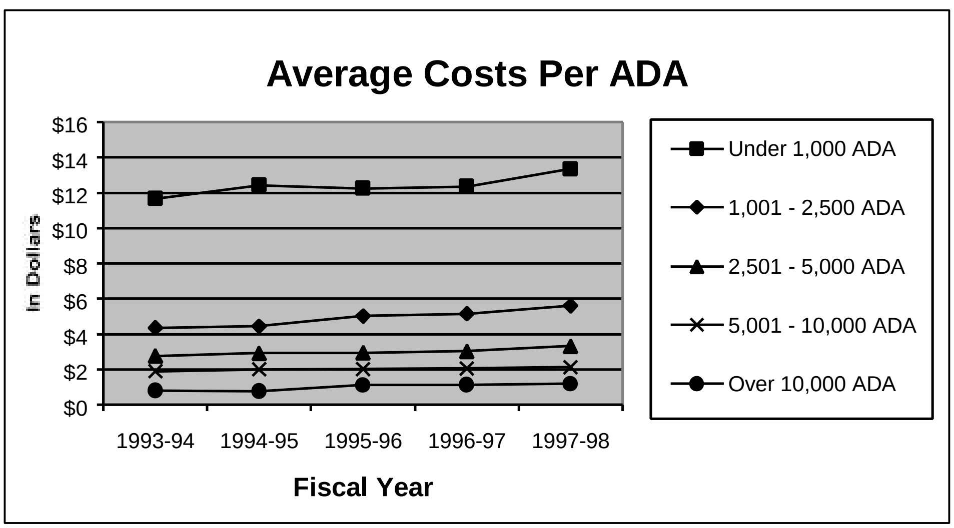
There was a significant increase in the number of annual audit reports submitted in a timely manner (see Table 11). During FY 1997-98, 289 more reports were received by the December 15 deadline. The majority of annual reports — 900 of 1,052, or 86% — were submitted by that date.

Average Audit Cost Per ADA

The State Controller's Office maintains a database of information pertaining to audit contracts between local school districts and independent auditors. From that database, the total audit costs and cost per audit, on a per unit of ADA basis, for school districts' annual audits were determined. Audit costs for the 1997-98 audits totaled $12.35 million, an increase of $600,000, or 5.6%, over total audit costs of $11.69 million for FY 1996-97.

Average audit costs increased slightly

Table 12



The average audit cost per ADA increased slightly over the prior year. The biggest increase of 9.6% ($0.29) was for districts with 2,501 to 5,000 ADA.

Appendix A — Audit Report and Interim Report Disclosures of Impending Financial Problems

County School District	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	Average Daily Attendance	1998-99 Interim Report [6] First	1998-99 Interim Report [6] Second	1997-98 Filed Qualified or Negative Interim Report
Alameda County:						
Dublin	No	No	3,876	P	Q [3]	P
Contra Costa County:						
Antioch	No	Yes[1,2]	17,108	P	Q [3]	N
John Swett	No	No	2,147	P	Q [3]	P
Humboldt County:						
Freshwater	No	No	267	P	Q	P
Imperial County:						
Holtville	Yes	Yes	2,054	Q [3]	P	P
Lake County:						
Upper Lake	No	No	352	Q	Q	P
Los Angeles County:						
Centinela Valley	No	No	5,646	Q [3]	Q	Q
Marin County:						
Lagunitas	No	No	438	Q [3]	P	P
Monterey County:						
San Antonio	No	No	196	P	Q	P
Napa County:						
Howell Mountain	Yes	Yes	72	N [4]	N	P
Placer County:						
Auburn	No	No	2,934	Q	Q	P
Tahoe-Truckee	No	No	5,030	Q	Q	P
Plumas County:						
Plumas	No	No	3,487	Q [5]	Q	P
San Francisco County:						
San Francisco	No	No	60,584	Q	P	P
San Mateo County:						
Burlingame	Yes	Yes	2,361	Q [3]	Q	P
Santa Barbara County:						
Guadalupe	No	No	1,106	Q	P	P
College	No	No	702	P	Q [3]	P
Shasta County:						
Mountain Union	No	No	146	P	Q	P
Sonoma County:						
Monte Rio	No	No	171	Q	Q	P
Tulare County:						
Alpaugh	No	No	310	Q	P	P
Richgrove	No	No	720	Q	P	Q

1 Going concern finding.
2 Finding related to budget or reserves level.
3 County office of education changed certification from positive to qualified.
4 County office of education changed certification from positive to negative.
5 State superintendent of instruction changed certification from positive to qualified.
6 P = Positive Q = Qualified N = Negative

Appendix B — School Districts Filing Qualified or Negative Interim Reports

County/ School District	1st/2nd Certifi-cation	Deficit Spending	Inade-quate Reserves	Revenues Over-Estimated	Expendi-tures Under-Estimated	Analysis of Key Indicators For Financial Difficulties: Declining Enroll-ment	Long-Term Debt/Other Obligations	Payroll Problems	Staffing Reduction	Audit Adjust-ment Findings	In-accurate Interim Report	No Fiscal Over-sight	Budget Over-runs	Mandated Cost Claim Reduction
Alameda:														
Dublin	P/Q		?		?		?							
Contra Costa:														
Antioch	P/Q	?	?	?			?							
John Swett	P/Q	?	?		?		?				?			
Humboldt:														
Freshwater	P/Q	?	?			?								
Imperial:														
Holtville	Q/P		?								?	?		
Lake:														
Upper Lake	Q/Q	?	?											
Los Angeles:														
Centinela	Q/Q		?	?						?	?			?
Marin:														
Lagunitas	Q/P	?	?										?	
Monterey:														
San Antonio	P/Q	?	?		?									
Napa:														
Howell Mountain	N/N		?		?		?						?	
Placer:														
Auburn	Q/Q		?			?				?				
Tahoe-Truckee	Q/Q		?	?		?		?						
Plumas:														
Plumas	Q/Q			?	?		?							
San Francisco:														
San Francisco	Q/P						?	?						
San Mateo:														
Burlingame	Q/Q	?	?	?										
Santa Barbara:														
Guadalupe	Q/P	?	?			?								
College	P/Q	?	?			?								
Shasta:														
Mountain Union	P/Q	?	?		?									
Sonoma:														
Monte Rio	Q/Q	?	?						?					
Tulare:														
Alpaugh	Q/P		?			?				?				
Richgrove	Q/P		?	?	?		?		?	?				

P = Positive Q = Qualified   N = Negative

Appendix C — Summary of Audit Report Problems

Description	Number of Findings 1996-97	Number of Findings 1997-98
<u>Auditor's Opinion</u>		
The auditor's qualified opinion due to departure from generally accepted accounting principles (GAAP) did not provide substantive reason for departure and/or did not disclose possible effects on financial statements.	0	8
The auditor's qualified opinion due to scope limitation did not include an explanation paragraph and/or did not disclose possible effects on financial statements.	2	6
Substantive reasons for adverse opinion or disclaimer of opinion were not adequately disclosed.	16	0
The auditor's opinion did not state that the financial statements conform with GAAP.	1	1
Independent auditor's report on the financial statements was not included.	1	0
The auditor's report did not state that the audit was conducted in accordance with generally accepted auditing standards (GAAS) and government auditing standards.	0	10
Reference to a separate report on compliance and on internal control over financial reporting was not included.	0	4
	20	29
<u>Financial Statements</u>		
The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances — All Governmental Fund Types was omitted or contained errors.	25	22
The Combined Balance Sheet — All Fund Types and Account Group was omitted or contained errors.	21	21
The fund balance was not properly reserved for material nonexpendable assets.	5	9
The combined budget and actual statement was not properly presented.	35	13
The financial statements were not properly presented for the proprietary and nonexpendable trust funds.	1	1
Long-term debt was improperly reported and presented.	3	3
Interfund receivables did not equal interfund payables.	5	1
All activities, organizations, or functions of government related to the joint powers entity were not identified.	2	1
The notes did not adequately disclose the criteria used in determining the scope of the joint powers entity.	1	1
	98	72

Description	Number of Findings 1996-97	Number of Findings 1997-98
Notes to the Financial Statements		
The notes did not adequately disclose all material items necessary for a fair presentation of the financial statements (long-term debt, issuance of certificates of participation, pension obligations, prior period adjustments, etc.).	5	10
The notes did not adequately disclose pension obligations.	14	16
The notes did not include full disclosure with respect to long-term debt.	18	21
The nature and purpose of reported reserves was not sufficiently clear.	1	5
The notes did not adequately disclose prior period restatements or adjustments.	6	1
	44	53
Supplemental Information Section		
The Schedule of Expenditures of Federal Awards did not include the required federal catalog numbers; the total federal revenue on the schedule did not agree with the financial statements; total expenditures for each federal program were not listed; or the schedule did not include all the required programs.	26	30
The notes did not disclose the district's participation in the Early Retirement Incentive program.	27	16
The required Schedule of Instructional Time was omitted or contained deficiencies.	2	0
The auditor's report did not include an opinion on supplementary information.	9	7
The reconciliation of annual financial and budget report with audited financial statements was not included.	5	9
The auditor's report did not identify the supplementary information, including the Schedule of Expenditures of Federal Awards.	2	9
The Schedule of Financial Trends and Analysis was omitted or contained deficiencies.	1	0
The Schedule of Expenditures of Federal Awards was not included.	0	1
	72	72
Internal Control Section		
The Report on Compliance and on Internal Control Over Financial Reporting did not reference the financial statements audited.	252	187
The Report on Compliance and on Internal Control Over Financial Reporting was deficient.	129	139
The Report on Compliance and on Internal Control Over Financial Reporting was omitted.	16	4
The Report on Compliance and on Internal Control Over Financial Reporting did not include a statement regarding test results.	1	0
	398	330

Description	Number of Findings 1996-97	Number of Findings 1997-98
Federal and State Compliance Section		
The auditor’s report on state compliance was deficient.	95	110
The auditor’s report on state compliance was not included.	2	0
The Report on Compliance With Requirements Applicable to Each Major Program and Internal Control was deficient.	12	27
The Report on Compliance With Requirements Applicable to Each Major Program and Internal Control was not included.	8	6
	117	143
Findings and Recommendations Section		
There was no report on the auditee’s corrective action plan to eliminate noncompliance included in the report.	18	22
The audit findings were not coded with the correct five-digit number.	24	10
Noncompliance was reported; however, sufficient data was not presented.	12	24
Schedule of Instructional Time indicates noncompliance with the requirements, but the finding was not included in the report.	11	14
Financial impact resulting from noncompliance was not quantified.	10	65
Available reserves are below the minimum required and management's plans and/or going concern note was not included.	12	19
The auditor’s report on the financial statements did not describe the nature of the audit.	13	0
Summary of auditor’s results was not included.	0	20
Major federal programs were not identified.	0	17
Questioned or unsupported costs material to the financial statements were not shown in either the financial statements or notes, nor was the opinion modified.	0	1
Summary schedule of prior audit findings was not included	0	1
	100	193
Total number of findings	849	892

Appendix D — Summary of Audit Report Compliance Findings

Program	Description of Problem	Number of Findings
STATE		
Adult Education	Attendance accounting deficiencies	24
	Other findings	1
	Lack of documentation/records	1
	Expenditures overstated	2
	Reported revenue erroneous	1
Child Development	Financial report inaccurate	1
	Other findings	3
	Reported revenues inaccurate	2
	Expenditures overstated	1
	Lack of documentation/records	1
	Financial report/claim not filed/not filed in a timely manner	1
Child Nutrition	Financial report inaccurate	5
	Reported revenue erroneous	1
Economic Impact Aid	Other findings	1
Longer Instructional Day	Instructional time requirements not met	25
	Other findings	6
Early Retirement Incentive	Certification form not filed/incomplete/inaccurate	4
School Improvement Program (SIP)	Other findings	3
Special Education	Financial report inaccurate	1
	Other findings	2
J-390 Report	Financial report inaccurate/does not reconcile to accounting records	12
Consolidated Application	Multi-funded positions not properly documented	4
	Expenditures not described in school site plan	2
	School site plan not prepared	5
	Staff development days not approved in the school site plan	18
Transportation	Expenditures	1
Child Care Food	Expenditures overstated	1

Program	Description of Problem	Number of Findings
STATE (continued)		
Concurrent Enrollment in Public Higher Education	Attendance accounting system deficiency	4
	Waiver of college credit not on file	21
	Other findings	13
State Instructional Materials Fund	Public hearing on instructional materials held after June 30	338
	Ten-day notice of public hearing not posted at three public locations in district	27
	Interest earned on allowance not allocated to the program	29
	Other findings	44
Reading Instructional Development Program	Expenditures not allowed	2
	Other findings	2
Attendance Requirements	Excused absences — problems with verification procedures/documentation	102
	Independent Study contract was not prepared/was deficient	92
	Excused absences improperly recorded	41
	Attendance accounting system not approved by CDE	72
	Attendance registers/scantrons not signed by the teacher	46
	Lack of documentation/records	43
	Other findings	23
	Attendance report does not reconcile to supporting documentation	51
	ADA overstated by 0-5 ADA	51
	Attendance report inaccurate/incomplete	49
	Kindergarten retention forms not maintained and/or not properly approved	43
	Incorrect reporting of attendance of staff development days	37
	Incorrect application of attendance accounting for continuation education	28
	ADA understated by 0-5 ADA	19
	Incorrect application of positive/negative attendance accounting	6
	ADA understated by 5-10 ADA	11
	Regional Occupational Center/Program attendance deficiency	8
	ADA overstated by 10-20 ADA	10
	ADA overstated by 5-10 ADA	16
	ADA overstated by over 20 ADA	15
	ADA understated by 11-20 ADA	4
	Student not eligible for admittance to kindergarten	7
	Minimum day requirements not met	3
Inventory of Equipment	Inventory of equipment not maintained	143
Gann Limit Calculation	Appropriation calculation deficiency	3
Class Size Reduction	Number of classes and pupils reported on Form J-7 CSR understated	40
	Number of classes and pupils reported on Form J-7 CSR overstated	63
	Positive daily enrollment records/counts not maintained	4
	Lack of documentation/records	3
	Teacher training not completed/not documented	26
	Other findings	19
Class Size Reduction Facilities	Application inaccurate/not complete	4
	Other findings	3

Program	Description of Problem	Number of Findings
STATE (continued)		
Community Day Schools	Minimum day requirements not met	3
	Attendance report inaccurate	7
State Categorical Programs	Multi-funded positions not supported by time distribution records	6
	Expenditures overstated	1
Deferred Maintenance	Expenditures not allowable	2
	Financial report inaccurate	1
	Other findings	2
Unspecified Program	Other findings	1
Other Programs[1]	Other findings	3
	Lack of documentation	1
	Financial report/claim not filed/not filed on time	2
	Subrecipient monitoring	1
	Cash management	1
	Matching level of effort	2
	Eligibility of participants	1
	Reporting requirements	1
Subtotal, number of state findings		1,729
FEDERAL		
Bilingual Education	Allowable costs/cost principles	1
	Other findings	1
Child Care and Development Block Grants	Allowable costs/cost principles	1
ESEA, Chapter 1	Other findings	5
	Special tests and provisions	4
	Matching, level of effort	1
	Lack of documentation	2
	Types of services allowed/unallowed	2
	Expenditures overstated	3
	Cash management	2
	Reported expenditures inaccurate	1
	Reporting requirements	2
	Eligibility of participants	3
Handicapped Preschool and and School	Eligibility of participants	2
	Other findings	1
	Special tests and provisions	2
	Lack of documentation/records	2
Head Start	Allowable costs/cost principles	1
Job Training Partnership Act	Allowable costs/cost principles	1
Migrant Education	Eligibility of participants	1
	Special tests and provisions	1
	Expenditures overstated	1

Program	Description of Problem	Number of Findings
FEDERAL (continued)		
Cash Management	Noncompliance with federal requirements	1
Allowable Costs/ Cost Principle	Noncompliance with federal requirements	2
Equipment and Real Property Management	Noncompliance with federal requirements	19
Federal Programs	Multifunded position not properly documented	37
	Reported expenditures do not reconcile to general ledger	1
	Noncompliance with requirements for procurement/suspension/debarment	2
School Breakfast Program	Expenditures understated	1
	Expenditures overstated	2
	Financial report inaccurate/not complete	1
	Activities allowed or unallowed	4
	Eligibility of participants	2
	Reporting requirements	3
	Allowable costs/cost principles	2
Drug Free Schools	Period of availability of federal funds	1
	Other findings	1
FEMA	Special tests and provisions	2
	Allowable costs/cost principles	1
	Cash management	1
National School Lunch	Eligibility of participants	10
	Other findings	7
	Lack of documentation/records	5
	Financial report inaccurate	3
	Expenditures overstated	2
	Expenditures understated	2
	Types of services allowed/unallowed	14
	Reported expenditures inaccurate	2
	Reporting requirements	10
	Reported expenditures do not reconcile to general ledger	3
	Special tests and provisions	4
	Allowable costs/cost principles	5
	Equipment and real property management	2
Vocational Education	Subrecipient monitoring	1
	Reported expenditures do no reconcile to general ledger	1
Title I — Grants to LEAs	Allowable costs/cost principles	8
	Equipment and real property management	6
	Period of availability of federal funds	1
	Procurement and suspension and debarment	1
Subtotal, total number of federal findings		210
Total number of findings		1,939

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[1] Included as state findings on the graph displayed in Table 8, but may also include federal program issues.

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