

# **ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS**

**Report to the Superintendent of Public Instruction**

*For the Period of July 1, 2009, through June 30, 2010*



**JOHN CHIANG**  
California State Controller

June 2011



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**California State Controller**

June 30, 2011

The Honorable Tom Torlakson  
State Superintendent of Public Instruction  
California Department of Education  
P.O. Box 944272  
Sacramento, CA 94244-2720

Dear Superintendent Torlakson:

I am pleased to announce the completion of the Annual Financial Report of California K-12 Schools for 2010. The report summarizes the financial and program compliance status of the State's school districts, county offices of education, and charter schools for Fiscal Year (FY) 2009-10, unless otherwise specified. For FY 2009-10, there were a total of 1,844 local education agencies (LEAs), including 963 school districts, 58 county offices of education, and 823 charter schools.

For FY 2009-10, California's local education agencies incurred expenditures in excess of revenues by \$255.2 million. For FY 2009-10, the American Recovery and Reinvestment Act (ARRA) expenditures were \$3.5 billion compared with \$642 million expended in the prior fiscal year. The number of LEAs engaged in multi-year deficit spending increased from 98 to 107. The number of districts and county offices of education filing negative or qualified first- or second-interim certifications for FY 2010-11 decreased from 197 to 158. The reasons for filing negative or qualified certifications are due primarily to deficit spending, projected revenue limit changes, projected operating expenditure changes, contribution changes, and projected operating revenue changes.

State and federal compliance findings noted in the independent auditors' reports of school districts and county offices of education increased from the prior year. Auditors reported 867 compliance findings in FY 2009-10, a 28.4% increase from the 675 reported in FY 2008-09. Moreover, 20.9% of the compliance findings were related to deficiencies in average daily attendance (ADA) accounting, which is the primary basis for the allocation of State funding. The auditors also reported 89 findings pertaining to the After School Education and Safety Program.

The Honorable Tom Torlakson  
June 30, 2011  
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I hope the report will be useful to you and the Legislature in planning California's future education needs. Please direct any comments regarding the content of the report to John Hiber, Chief Operating Officer, at (916) 445-3028.

Sincerely,

*Original signed by*

**JOHN CHIANG**  
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 education agencies (school districts, county offices of education, and charter schools) and to function as the independent protector of taxpayer dollars.

This oversight responsibility includes reviewing annual local education agencies' audit reports, maintaining a database with financial and statistical data on local education agencies' audit reports, reviewing and certifying the audit reports submitted by independent auditors, tracking financially troubled school districts identified by the interim reporting process, developing and submitting the content of the *Standards and Procedures for Audits of California K-12 Local Education Agencies* (K-12 Audit Guide) to the Education Audit Appeals Panel, and conducting financial and program audits at various local education agencies.

Most of the information used to prepare this report is compiled from annual audit reports prepared for individual local education agencies (LEAs) by independent certified public accountants for Fiscal Year (FY) 2009-10. Additional data was taken from interim financial report certifications submitted by LEAs during FY 2010-11. Information related to the emergency loan apportionments was obtained from various sources, including the California Infrastructure and Economic Development Bank.

This year's report contains the following key findings:

- The number of LEAs engaged in multi-year deficit spending increased from 98 to 107. Although some LEAs legitimately may need to engage in multi-year deficit spending (such as for building projects), this practice often is an indication that a district is facing financial difficulties.
- The number of LEAs filing negative or qualified certifications during at least one of the two reporting periods, decreased from 197 in FY 2009-10 to 158 in FY 2010-11. In the second reporting period of FY 2010-11, 127 LEAs filed qualified interim financial reports and 13 LEAs filed negative interim financial reports. Continuing financial difficulties may have a negative impact on these LEAs' educational programs.
- Long-term borrowing increased by \$3.721 billion to a total of \$9.364 billion, a 65.95% increase from the \$5.643 billion reported in the prior year. Generally, LEAs issue long-term debt to fund capital improvements, refinance existing debt, or to buy land for future use.

- The number of state and federal compliance findings contained in the audit reports of LEAs increased from the prior year. Approximately 20.9% of the compliance findings for FY 2009-10 are related to deficiencies in average daily attendance (ADA) accounting, which is the primary factor in determining the amount of funding an LEA receives from the State.
- The LEAs' annual audit reports disclosed 89 audit findings pertaining to the After School Education and Safety Program.
- FY 2009-10 was the first full year in which LEAs received American Recovery and Reinvestment Act of 2009 (ARRA) federal funds. ARRA expenditures represented 31.10% of total federal expenditures reported.
- The number of rejected reports increased by 64 from the prior year, from 337 to 401. Approximately 106 of the 401 reports rejected, or 26%, were charter school reports.
- There were 146 reporting deficiencies related to federal programs, including ARRA programs. This number represents a 70% increase in federal program reporting deficiencies from the prior fiscal year. The increase in federal program reporting deficiencies is due to the increased federal ARRA funds expended by LEAs. For FY 2009-10, ARRA expenditures were \$3.5 billion compared with \$642 million expended in the prior fiscal year.
- The number of federal compliance findings contained in the audit reports of LEAs increased from the prior year and is due primarily to increased expenditures of ARRA funds. For FY 2009-10, there were 127 ARRA findings and questioned costs of \$9.1 million, compared with 9 ARRA findings and questioned costs of \$2.2 million in the prior year.

# Introduction

The State Controller's Office's 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 is responsible for financial oversight of local education agencies (school districts, charter schools, and county offices of education). Beginning with Fiscal Year (FY) 2005-06, Education Code section 47634.2(d) rendered charter schools subject to audits pursuant to Education Code section 41020. That Education Code section requires that audits be conducted in accordance with *California Code of Regulations*, Title 5-Education, section 19810 et seq. (the audit guide is known as the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2009-10*, or K-12 Audit Guide).

Each section of the report specifies the type of local education agency being reported on and the fiscal year for which the data was obtained.

In accordance with state law, the State Controller's Office responsibilities include:

- Developing, in consultation with the Department of Finance, the State Department of Education, and other school representatives, an annual audit guide<sup>1</sup> that prescribes financial statements and other information that should be included in each LEA's audit report. The audit guide provides guidance to independent auditors conducting school district audits.
- Reviewing each local education agency's audit report submitted to the State and performing the associated follow-up actions, including compliance audits.<sup>2</sup>
- Tracking notifications from the school districts that identify substantial fiscal problems at interim reporting periods.

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<sup>1</sup> *Standards and Procedures for Audits of California K-12 Local Education Agencies* (K-12 Audit Guide). The Education Code states that the Controller, in consultation with the California Department of Education, the California Department of Finance, representatives of the California School Boards Association, the California Association of School Business Officials, the California County Superintendents Educational Service Association, the California Teachers Association, and the California Society of Certified Public Accountants, shall recommend the statements and other information to be included in the audit reports filed with the State and shall propose an audit guide to carry out the purposes of this chapter. A supplement to the audit guide may be suggested during the audit year, to address issues resulting from new legislation in that year that changes the conditions of apportionment. The proposed content of the audit guide and any supplement to the audit guide shall be submitted by the Controller to the Education Audit Appeals Panel for review and possible amendment.

<sup>2</sup> Compliance audits are conducted to determine whether categorical state and federal program funds are expended in accordance with the applicable program laws and regulations.

- Conducting the annual financial and compliance audits of school districts receiving emergency State apportionment loans.
- Ensuring that satisfactory arrangements for an annual audit have been made for each local education agency.
- Performing quality control reviews of independent auditors.
- Compiling pertinent data and reporting annually to the California State Legislature and the California Department of Education.

# Financial Indicators

## Overview

The Education Code places 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 local education agencies are presented in this section of the report. Data comes from interim financial report certifications submitted by school districts during FY 2010-11.

## Interim Reporting

School districts in California are required to file interim reports certifying their financial health to the governing board of the district and to the 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 must be in a format or on forms prescribed by the State Superintendent of Public Instruction and shall be based on Standards and Criteria for Fiscal Stability adopted by the State Board of Education pursuant to Education Code section 33127. Charter schools are not required to file interim reports.

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 or 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 or subsequent fiscal year**.

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

***Decrease in the  
number of districts  
that filed qualified or  
negative certifications***

During FY 2010-11, a total of 110 of the 1,021 LEAs required to file interim reports filed a qualified or negative certification for the first-period interim report (97 were “qualified,” and 13 were “negative”). Of these 110, 80 filed a second-period qualified interim report, 12 filed a second-period negative interim report, and 18 LEAs were able to take corrective action. However, an additional 48 LEAs that had filed a positive first-interim certification subsequently filed qualified or negative second-period interim reports, for a total of 140 qualified or negative certifications for the second-period interim reporting period (Figure 1). Thus, 158 LEAs reported qualified or negative certifications for at least one of the two periods (Appendix A), and 112 LEAs remained on the list from the prior year. LEAs filing qualified or negative interim reports for two or more years are monitored closely by the SCO through continuous contact with the California Department of Education.

The most common causes of fiscal problems cited in qualified or negative certifications as summarized in Appendix B were:

- Deficit Spending: 152 LEAs (96.20%)
- Other Revenues (projected operating revenue changes): 148 LEAs (93.67%)
- Revenue Limit (projected revenue limit for any of the current or two subsequent fiscal years has changed by more than 2% since budget adoption or first interim report): 143 LEAs (90.51%)
- Other Expenditures (projected operating expenditure changes): 140 LEAs (88.61%)
- Contributions (contributions from unrestricted to restricted resources, or transfers to or from the general fund to cover operating deficits, changed since budget adoption or first interim report by more than \$20,000 and more than 5% for any of the current or two subsequent fiscal years): 137 LEAs (86.71%)

An analysis of the 48 LEAs that changed from a positive first interim certification to a negative or qualified second-period interim certification revealed the same top five common causes listed above.

**Figure 1**

<b>Second-Period Interim Reporting History</b>					
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11*</u>
Positive	1,010	914	926	853	881
Qualified	19	108	86	159	127
Negative	<u>5</u>	<u>13</u>	<u>19</u>	<u>13</u>	<u>13</u>
Totals	<u>1,034</u>	<u>1,035</u>	<u>1,031</u>	<u>1,025</u>	<u>1,021</u>
*Additional information regarding local education agencies that filed qualified or negative interim reports during FY 2010-11 is provided in Appendices A and B.					

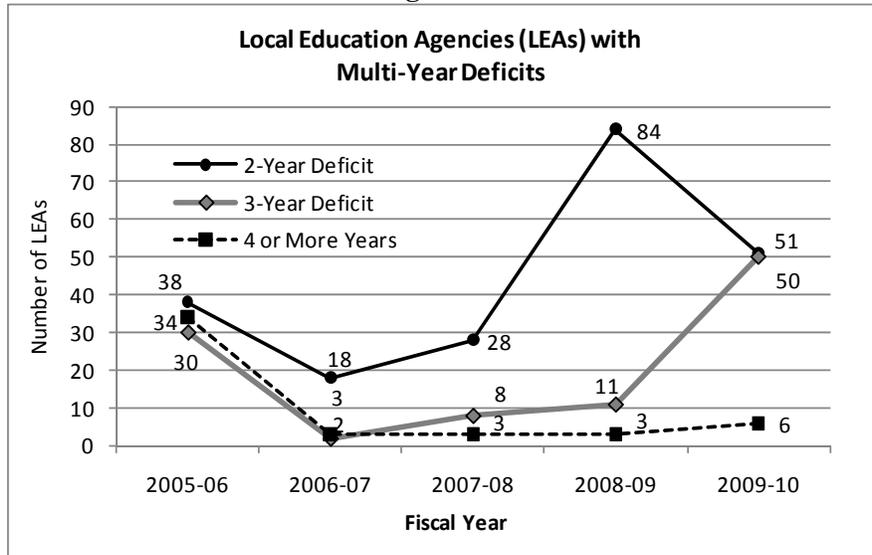
## Deficit Spending

### *LEA multi-year deficit spending increased*

During FY 2009-10, single-year deficit spending increased to 448 LEAs from 96 LEAs in the prior fiscal year, a 367% increase.

LEAs continue to face fiscal challenges as demonstrated by the multi-year deficit spending patterns. The overall number of LEAs relying on multi-year deficit spending increased (Figure 2). Deficit spending patterns are monitored closely by the county offices of education and the California Department of Education to determine whether the districts are facing serious financial problems.

Figure 2



## 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, through legislation, an emergency apportionment loan. As a condition of acceptance of the loan, the Superintendent appoints an administrator or trustee to control, monitor, and review the operation of the district. The administrator or trustee helps the district develop a five-year recovery plan.

During the past 29 years, the State has granted more than \$226 million in emergency apportionment loans from the General Fund to school districts. The emergency loans are designed to provide an advance of apportionments owed to the districts from the State School Fund. Education Code sections 41329.50 through 41329.54 and 41329.56 specify the requirements for emergency apportionment financing. During FY 2010-11, three districts had General Fund loan balances in amounts ranging from \$0.8 million to \$29 million.

West Contra Costa Unified School District, Oakland Unified School District, and King City Joint Union High School District are required to use lease financing to repay the emergency apportionments made from the State's General Fund. The emergency apportionment made to the Vallejo City Unified School District is considered an interim loan and must be repaid with the proceeds from lease financing.

The lease financing is made available by the California Infrastructure and Economic Development Bank (I-Bank) and the term cannot exceed 20 years. I-Bank issues the bonds to finance the emergency apportionments and related costs. I-Bank issued bonds to reduce or eliminate the initial loans, as identified in Figure 3.

Lease financing payments for Vallejo City Unified School District, West Contra Costa Unified School District, and Oakland Unified School District are due monthly over a seven-month period, from July through January of each fiscal year. The principal payments for these three districts are due annually on August 15. The lease financing payments for King City Joint Union High School District are due monthly over a four-month period from July through October of each fiscal year. The first principal payment for King City Joint Union High School District is scheduled for August 15, 2011.

Annual payment on the initial emergency loans for the Oakland Unified School District is due in June, and the Emery Unified School District payment is due in September. Vallejo City Unified School District received two emergency loans from the General Fund, which are due in June and August.

**Figure 3**

<b>Districts with Outstanding Loans (in \$Millions)</b>							
<b>Fiscal Year</b>	<b>School District</b>	<b>Initial Loan (General Fund)<sup>1</sup></b>			<b>Lease Revenue Bonds (I-Bank)<sup>2</sup></b>		
		<b>Amount of Loan</b>	<b>Out-standing Balance</b>	<b>Final Repay-ment Date</b>	<b>Amount Issued</b>	<b>Out-standing Balance</b>	<b>Final Repayment Date</b>
1990-91	West Contra Costa	\$28.5	\$—	12/08/2005	\$15.7	\$11.3	08/15/2018
2001-02	Emery Unified	2.3	0.8	09/30/2021	—	—	
2002-03	Oakland Unified	100.0	29.0	06/29/2026	59.6	53.4	08/15/2023
2003-04	Vallejo City Unified	60.0	28.2	08/15/2024	21.2	17.7	08/15/2024
2009-10	King City JUHSD	2.0	—	04/14/2010	14.4	14.4	08/15/2029

<sup>1</sup> The school loans General Fund (GF) balance information was obtained from the SCO's Division of Accounting and Reporting.

<sup>2</sup> The lease revenue bond information was obtained from the California Infrastructure and Economic Development (I-Bank).

## General Fund Revenues and Expenditures

For FY 2009-10, school district general fund expenditures exceeded revenues by \$255.2 million (\$.255 billion) (Figure 4).

Figure 4

School District General Fund Revenues And Expenditures (In \$Billions)					
	Fiscal Years				
	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
Revenues	\$51.964	\$51.379	\$52.305	\$59.476	\$56.132
Expenditures	<u>(50.724)</u>	<u>(48.754)</u>	<u>(51.581)</u>	<u>(57.708)</u>	<u>(56.387)</u>
Surplus/(Deficit)	<u>\$ 1.240</u>	<u>\$ 2.625</u>	<u>\$ 0.724</u>	<u>\$ 1.768</u>	<u>\$ (0.255)</u>

The cumulative fund balance or surplus for LEAs totaled \$9.8 billion at the end of FY 2009-10, a decrease of \$501 million from the prior year's total of \$10.3 billion. The decrease in fund balance appears to be attributable primarily to a decrease in federal revenues received in FY 2009-10. Federal revenues decreased by \$412 million over last fiscal year (\$7.826 billion in FY 2008-09, compared with \$7.414 billion in FY 2009-10). As part of the total fund balance, the LEAs 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 (ADA).

## Long-Term Borrowing

Generally, long-term debt is issued by LEAs to fund the purchase, construction, or lease of buildings and equipment; refinance existing debt; or 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.

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### *LEAs' issuance of long-term financing increased*

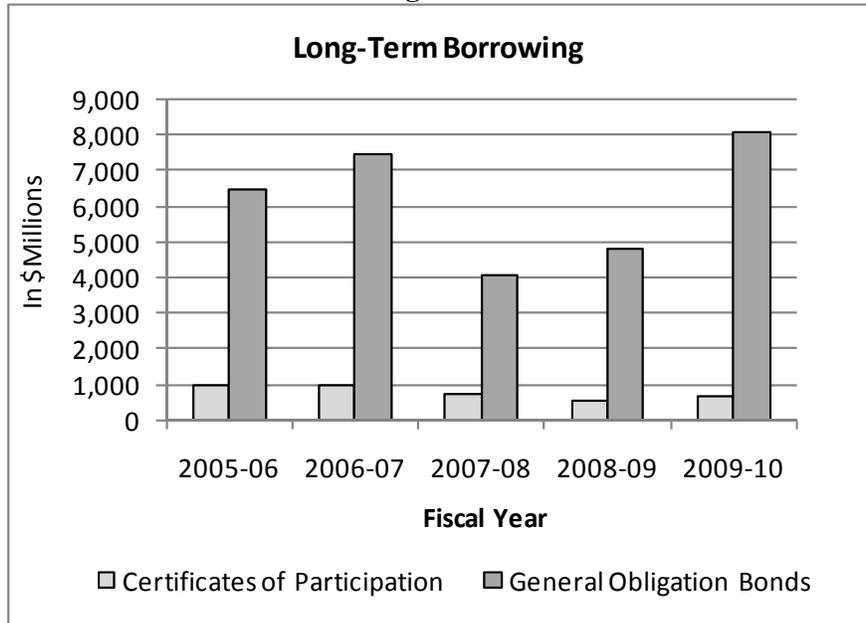
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During FY 2009-10, LEAs issued \$9.364 billion in long-term debt, an increase of \$3.721 billion over the prior year (65.95%). In FY 2009-10, the total number of LEAs that issued debt increased by 5.52% from the prior fiscal year. LEAs issued the following types of long-term debt:

- **Certificates of Participation (\$672 million, or 7.17%)**—A financing technique that provides long-term financing through leasing of school facilities, such as buildings, with either an option to purchase or a conditional sales agreement.
- **General Obligation Bonds (\$8.048 billion, or 85.95%)**—Bonds secured by the full faith and credit of the district. These long-term obligations are generally issued at more favorable rates than are other types of debt because of their preferred status; that is, they are secured by the taxing authority of the district.
- **Limited Tax Obligation Bond Instruments and Other Debt (\$644 million, or 6.88%)**—A financing technique that provides long-term financing of capital projects. The bonds are repaid from incremental taxes on property in a redevelopment area.

LEAs issued \$8.720 billion in Certificates of Participation and General Obligation Bonds during FY 2009-10, an increase of \$3.368 billion (62.93%) over the \$5.352 billion issued in the prior year (Figure 5).

**Figure 5**



Financing through Certificates of Participation increased by \$150 million, and financing through General Obligation Bonds increased by \$3.218 billion over the prior year. The Certificates of Participation were issued by 46 LEAs during FY 2009-10.

Certificates of Participation accounted for 7.17% of long-term borrowing in FY 2009-10, a 28.78% increase from the previous year. In comparison, General Obligation Bonds accounted for 85.95% of long-term borrowing in FY 2009-10, an increase of 66.61% over the previous year.

## Lottery Revenues

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, community colleges, and other educational agencies. The distribution of this 34% between K-12 school districts and community colleges fluctuates annually.

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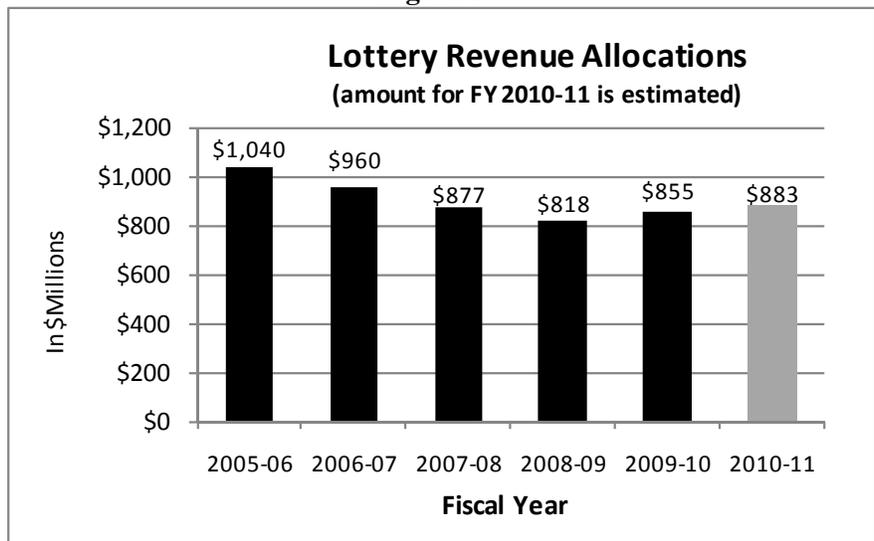
***Lottery revenues  
projected to increase***

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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 for FY 2010-11 is projected to increase by 3.3% over FY 2009-10, up to \$883 million<sup>3</sup>—approximately \$133 per K-12 average daily attendance (Figure 6).

**Figure 6**



<sup>3</sup> The Lottery revenue information is obtained from the California Department of Education, based on State Lottery projections.

# Program Compliance

## Overview

The annual audit reports by Certified Public Accountants (CPAs) are the primary source of information regarding a local education agency's compliance with state and federal requirements. The State Controller's Office reports on program compliance issues as part of its review of annual audit reports, the overall certification process, and associated follow-up actions. In addition, the State Controller's Office conducts compliance audits.

## Compliance Findings

Independent auditors determine whether the LEAs, including joint powers entities, 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 joint powers entities are formed to provide a joint service to a group of districts; the entities are governed by a board consisting of a representative from each member district. When an LEA is not in compliance with applicable laws and regulations, the findings are communicated by the independent auditors in the audit report.

The number of compliance findings contained in the FY 2009-10 LEA financial reports submitted by CPAs increased from the prior year. There were 867 compliance findings in FY 2009-10, a 28.44% increase over the 675 reported in FY 2008-09 (see Appendix C). The number of attendance accounting findings increased by 30 over the prior year, from 151 to 181, or 19.87%.

Some of the problems identified in the compliance findings may have a fiscal impact on district operations, as they may result in a loss of state and federal funding. Of the 867 audit findings, 568 (65.51%) pertained to state programs and requirements and 299 (34.49%) pertained to federal programs and requirements (see Figure 7). Attendance-related findings accounted for 20.88% of compliance findings. The majority of the attendance findings, representing 63.54% of all attendance findings, were related to:

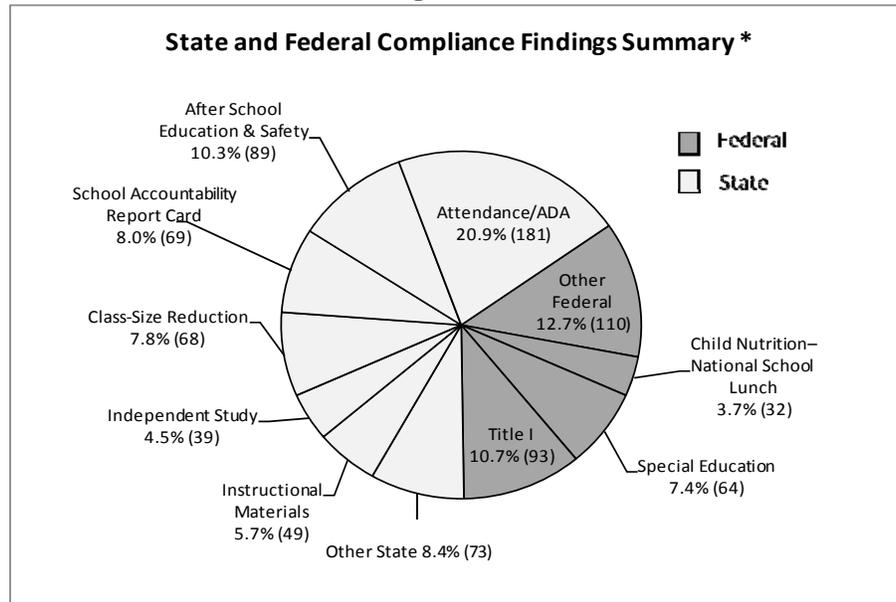
- Understated or overstated average daily attendance;
- Kindergarten retention forms not maintained/properly approved; and
- Attendance reports not reconciling to supporting documentation.

The audit reports disclosed 89 findings pertaining to the After School Education and Safety Program. This program funds the establishment of local after school education and enrichment programs. The types of findings are as follows:

- Reported number of students served was not supported by written records or did not reconcile to supporting documents;
- LEAs did not establish policies regarding reasonable early daily release of pupils from the program;

- LEAs did not establish policies regarding reasonable late daily arrival of pupils to the program;
- Indirect costs were overstated;
- Matching requirements were not met;
- Administrative costs exceeded 15% of State funding;
- Reported students served was inconsistent with early release policy; and
- Other findings.

**Figure 7**



\* See Appendix C

### ARRA Expenditures and Compliance Findings

The American Recovery and Reinvestment Act of 2009 (ARRA, commonly referred to as The Stimulus or The Recovery Act) is an economic stimulus package enacted by the United States Congress in February 2009. The stimulus was intended to create jobs and promote investment and consumer spending during the recession. For more information on ARRA, see Appendix E.

ARRA increased federal funds available for education. Some of the programs funded to the State of California through the U.S. Department of Education by Education Recovery Act grants include State Fiscal Stabilization Funds; Title I, Part A–Supporting Low-Income Schools; IDEA Grants, Parts B and C–Improving Special Education Programs; and Education Technology Grants.

The first year in which LEAs had ARRA funds to spend was FY 2008-09. However, due to the timing of the Act's passage, the ARRA funds were not allocated to LEAs until late in FY 2008-09. By September 30, 2010, all of the Department of Education appropriation had been awarded, and these funds remain available for obligation through September 30, 2011. Therefore, FY 2009-10 will be the only complete fiscal year in which ARRA funds were appropriated. As a result, we expect ARRA expenditures and related findings to be higher than in the prior and subsequent fiscal years.

Of the \$11.249 billion in federal award expenditures, \$3.499 billion, or 31.10%, was ARRA-related expenditures.

ARRA-related findings (127) (Figure 8) totaling \$9,102,342 were reported, representing 0.26% of ARRA expenditures.

**Figure 8**

<b>ARRA-Related Findings</b>		
<b>ARRA Funds</b>	<b>Number</b>	<b>Percentage</b>
Special Education	46	36.22%
Title I	44	34.65%
State Fiscal Stabilization Fund	34	26.77%
Other	3	2.36%
<b>Total</b>	<b>127</b>	<b>100.00%</b>

## **Audit Resolution Process**

Education Code section 41020(n) requires the State Controller to annually select a sample of county offices of education for which to perform a follow-up review of the audit resolution process. The scope of the reviews is limited to determining whether each county office of education followed its audit resolution process, resolved all of the audit findings, followed up on the district's corrective action plans, and notified the Superintendent of Public Instruction and the State Controller of the results.

In FY 2010-11, the State Controller's Office did not perform any reviews of the audit resolution process.

# Quality Control

## Overview

The State Controller, by authority of Education Code section 14504, reviews and certifies the annual independent audit reports submitted by each local education agency (school district, county office of education, and charter school) for compliance with audit guidelines set out in the *Standards and Procedures for Audits of California K-12 Local Education Agencies* (K-12 Audit Guide).

## Audit Report Certifications

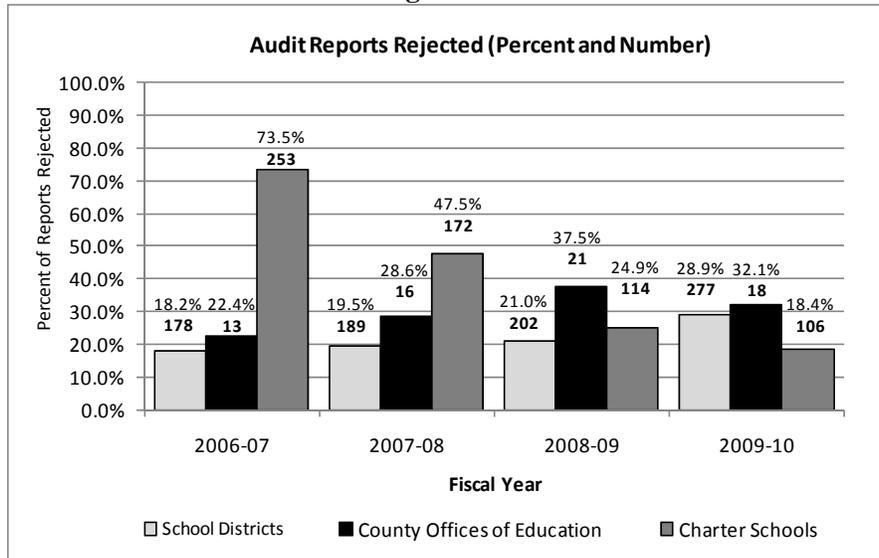
The State Controller’s Office determines whether audit reports conform to reporting provisions of the K-12 Audit Guide and notifies each local education agency, independent auditor, and the State Superintendent of Public Instruction as to whether a report has been accepted or rejected, based on conformity with those provisions.

For FY 2009-10, the SCO accepted 75% of the audit reports; the remaining 25% were rejected upon initial review. The State Controller’s Office subsequently accepted the rejected audit reports after the independent auditors made the requested corrections. LEAs withhold 10% of the independent auditors’ fees until the State Controller’s Office certifies the report. In addition, if an independent auditor has had a report rejected (and has not subsequently corrected it) for the same local education agency for two consecutive years, the State Controller’s Office may refer the auditor to the State Board of Accountancy for professional review.

### *Increase in number of rejected audit reports*

The number of rejected reports increased by 64 over the prior year, from 337 to 401, a 19% increase (Figure 9). Of the 401 reports rejected, 106 were charter school reports.

**Figure 9**



Upon initial review, the State Controller’s Office certified 1,176 (75%) of the 1,577 audit reports submitted by independent CPAs for FY 2009-10.

## Reporting Deficiencies

*Reporting deficiencies were decreased*

There were 679 reporting deficiencies; a decrease of 115 from 794 in the prior year (Figure 10).

**Figure 10**

	Fiscal Years	
	<u>2008-09</u>	<u>2009-10</u>
Independent Auditor's Report	87	62
Management's Discussion & Analysis	0	5
Basic Financial Statements	78	16
Notes to the Financial Statements	71	19
Required Supplementary Information	1	0
Supplementary Information Section	157	181
Government Auditing Standards Report	105	48
Management Letter	14	9
Single Audit Report	15	118
State Compliance Report	97	41
Findings and Recommendations Section	163	178
Other	<u>6</u>	<u>2</u>
Total	<u>794</u>	<u>679</u>

\*See Appendix D.

For FY 2009-10, there were 146 reporting deficiencies related to federal programs, including ARRA programs. This represents an increase of 60 reporting deficiencies, or 70% over the 86 reporting deficiencies during the prior fiscal year. This increase in federal program reporting deficiencies is due to the increased federal ARRA funds expended by LEAs. In the prior year, LEAs expended \$642 million and there were nine ARRA-related findings with questioned costs of \$2.157 million. For FY 2009-10, ARRA expenditures were \$3.5 billion with 127 findings and questioned costs of \$9.1 million.

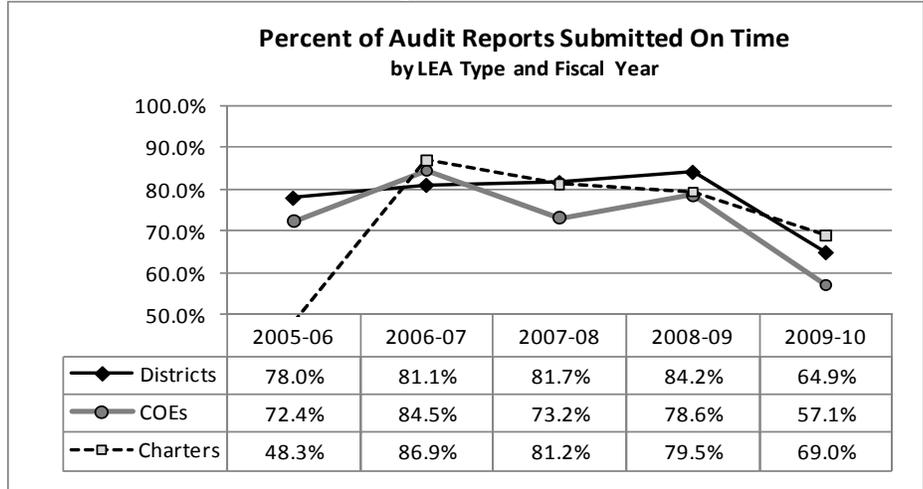
The reporting deficiency category with the greatest increase is the Single Audit Report. There was an increase of 103 deficiencies in FY 2009-10 over the prior fiscal year. This was due to a change in the Office of Management and Budget (OMB) Circular A-133 Single Audit Report format, updated in accordance with Statement on Auditing Standards (SAS) No. 117.

## Timely Submissions

*Annual reports submitted on time*

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 of each year. Filing deadline extensions may be granted, but only under extraordinary circumstances.

**Figure 11**



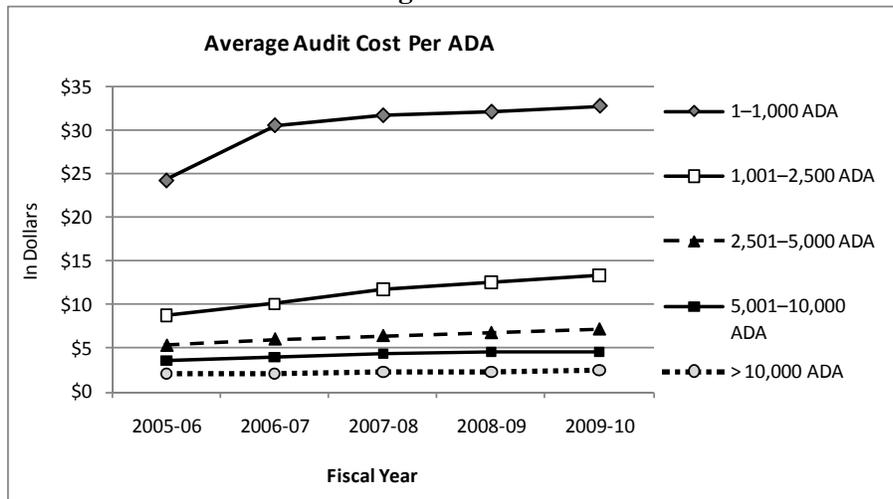
The number of annual school district, county office of education, and charter school audit reports submitted by the deadline decreased from the previous year (Figure 11). Approximately 1,051, or 66%, of the 1,590 required LEA reports were received by the December 15, 2010 deadline.

## Average Audit Cost per ADA

*Average audit costs increased*

The State Controller’s Office maintains a database of information pertaining to audit contracts between LEAs and independent auditors. From that database, the State Controller’s Office determined the total audit costs and cost per unit of ADA for LEA annual audits. Audit costs for FY 2009-10 totaled \$31.4 million, an increase of \$2.1 million, or 7%, more than total audit costs of \$29.3 million for FY 2008-09. The largest dollar increase of \$0.84 per ADA (a 6.7% increase) was for LEAs reporting 1,001 to 2,500 ADA (Figure 12).

**Figure 12**



## Quality Control Reviews

Education Code section 14504.2 expanded the State Controller's quality control review function to include LEAs that have received a negative budget/interim report certification and school districts that have a going concern issue, as determined by the county superintendent of schools. Education Code section 41020(f)(1) requires the State Controller's Office to publish a directory of CPAs deemed qualified to conduct audits of LEAs. This directory is published by December 31 of each year.

Quality control reviews are necessary to ensure that the CPAs are following generally accepted auditing standards and government auditing standards, and are reporting findings regarding financial statement issues and compliance with state and federal laws in their annual independent auditor's reports.

The general objective of the quality control reviews is to determine whether the independent auditors are conducting the annual financial audits of LEAs in accordance with:

- Generally Accepted Government Auditing Standards (GAGAS);
- Generally Accepted Auditing Standards (GAAS);
- *Standards and Procedures for Audits of California Local Education Agencies* (K-12 Audit Guide);
- Office of Management and Budget (OMB) Circular A-133; and
- California Business and Professions Code.

The State Controller's Office's opinion regarding the quality of the audits is classified in one of the following categories, based on whether the independent auditor performed the audit in accordance with auditing standards and state and federal requirements:

- If the audit was performed in accordance with the standards and requirements, the State Controller's Office's conclusion is that the independent auditor complied with auditing standards and state and federal requirements.
- If the audit was performed in accordance with the majority of the standards and requirements, the State Controller's Office's conclusion is that the independent auditor complied with the majority of auditing standards and state and federal requirements.
- If the audit was performed in accordance with some elements of the standards and requirements, but the majority of standards and requirements were not met, the State Controller's Office's conclusion is that the independent auditor complied with some elements of the standards and requirements, but that the majority of auditing standards and federal and state requirements were not met.
- If the audit was not performed in accordance with the standards and requirements, the State Controller's Office's conclusion is that the independent auditor did not comply with auditing standards and state and federal requirements. Such a conclusion may result in a referral of the independent auditor to the California State Board of Accountancy.

The State Controller's quality control reviews disclosed deficiencies in the following areas:

**Planning**

- The audit contract did not contain the required withholding provisions.
- The firm did not document follow-up on prior audit findings.
- The engagement letter did not contain all of the required elements or language.
- The firm did not issue an engagement letter.
- The firm did not obtain an audit contract.

**Internal Control**

- The firm did not determine whether internal control policies and procedures had been placed in operation.
- The firm did not adequately document assessment of risk of material misstatement.
- The firm did not assess control risk.
- The firm assessed control risk below maximum level; however, the firm did not perform tests of controls.
- The firm did not document how the use of information technology could impact controls.

**Federal Compliance**

- The firm did not perform testing for all applicable compliance requirements.
- The firm did not obtain evidence supporting the accuracy and completeness of the Schedule of Expenditures of Federal Awards (SEFA).
- The SEFA did not include a reference to the required notes to the schedule.
- The firm did not test all required major federal programs due to noncompliance with the percentage-of-coverage rule.
- The SEFA did not include the name of pass-through entity for federal awards received as a sub-recipient.
- The SEFA reported the amount of federal awards received, instead of the amount expended.

**State Compliance**

- The firm did not perform all applicable audit procedures listed in the K-12 Audit Guide and did not modify the report on state compliance to state that the procedure was not performed or describe the alternate procedures performed.

- The samples selected were not representative of the population.
- The firm did not report all exceptions identified in the working papers.
- The sample selection was not random as required by the K-12 Audit Guide.
- The firm did not maintain documentation of audit work performed for some state compliance requirements.

#### **Audit Evidence and Documentation**

- The working papers did not contain the objective, scope and methodology.
- The working papers did not contain the results of all audit tests and procedures performed.
- The working papers did not support the auditor's opinion and findings and recommendations.
- The working papers did not contain sufficient information to enable an experienced auditor to understand the procedures performed and conclusions reached.
- The sampling methodology was not documented.
- The legal representation letter was not obtained.
- The working papers did not support the fund balances reported in the audit report.
- The firm did not document its overall strategy for the expected conduct and scope of the audit.
- The firm did not maintain sufficient documentation of the discussion among engagement personnel regarding fraud.
- The firm's level of substantive testing did not correspond to the thresholds documented in the working papers.
- The firm did not document that it performed a final analytical review.

#### **Qualifications**

- The firm's staff did not meet the continuing professional education requirements.

#### **Reporting**

- The audit report was inappropriately titled as a Comprehensive Annual Financial Report.
- The unreserved fund balances of nonmajor funds were not displayed by fund type on the face of the balance sheet.
- The Schedule of Financial Trends and Analysis did not contain a footnote indicating that the on-behalf payments were excluded from revenues and expenditures in the schedule.

- The independent auditor's report did not report a departure from generally accepted accounting principles that was disclosed in a note to the financial statements.
- The local revenue was not reported by source and the expenditures were not reported by function in the financial statements.
- The notes to the financial statements did not disclose that the school had only one fund, the general fund.

## Appendix A - Audit Report and Interim Report Disclosures of Impending Financial Problems

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2009-10 Average Daily Attendance	2010-11 Interim Report		2009-10 Interim Report Second
				First	Second	
<b>Alameda County</b>						
1. Emery Unified	No	No	727	Q	P	P
2. Hayward Unified	No	Yes	19,852	N	Q	N
3. Oakland Unified	No	No	N/A	Q	Q	Q
<b>Amador County</b>						
4. Amador COE	No	No	224	Q	P	Q
5. Amador Co. Unified	No	Yes	3,974	Q	Q	Q
<b>Butte County</b>						
6. Chico Unified	No	Yes	11,631	Q	Q	Q
7. Durham Unified	No	Yes	1,019	P	Q	P
<b>Contra Costa County</b>						
8. John Swett Unified	No	Yes	1,569	Q	N	N
9. Mt. Diablo Unified	No	No	36,609	Q	P	P
<b>El Dorado County</b>						
10. Black Oak Mine Unified	No	No	1,559	Q	Q	P
11. Gold Oak Union Elem.	No	Yes	557	Q	Q	Q
12. Gold Trail Union Elem.	No	Yes	521	Q	P	Q
13. Rescue Union Elem.	No	No	3,980	Q	Q	P
<b>Fresno County</b>						
14. Golden Plains Unified	Yes	Yes	1,734	P	N	Q
15. Kerman Unified	No	No	4,258	P	Q	P
16. Orange Center Elem.	No	No	304	P	Q	Q
17. Raisin City Elem.	No	Yes	286	Q	Q	P
18. Sierra Unified	No	Yes	1,512	Q	Q	P
<b>Glenn County</b>						
19. Willows Unified	No	Yes	1,602	Q	Q	Q
<b>Humboldt County</b>						
20. Mattole Unified	No	No	929	Q	P	Q
21. Scotia Union Elem.	No	Yes	206	Q	Q	Q
<b>Imperial County</b>						
22. Calexico Unified	No	Yes	8,766	P	Q	P
23. Imperial Unified	No	Yes	3,458	P	Q	Q
<b>Kern County</b>						
24. El Tejon Unified	No	No	1,165	Q	Q	Q

## Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2009-10 Average Daily Attendance	2010-11 Interim Report		2009-10 Interim Report Second
				First	Second	
25. Lost Hills Union Elem.	No	No	565	P	Q	Q
26. Muroc Jt. Unified	No	No	1,947	Q	Q	Q
27. Panama-Buena Vista Union Elem.	No	Yes	15,870	Q	Q	Q
28. Rosedale Union Elem.	No	No	5,079	P	Q	P
29. Southern Kern Unified	No	No	3,236	N	N	Q <sup>1</sup>
30. Taft City Elem.	No	Yes	1,984	P	Q	P
31. Tehachapi Unified	No	Yes	4,478	P	Q	P
<b>Lake County</b>						
32. Kelseyville Unified	No	No	1,625	Q	Q	P
<b>Los Angeles County</b>						
33. Antelope Valley Union High	Yes	Yes	21,881	Q	Q	Q
34. Bellflower Unified	No	Yes	13,896	Q	Q	P
35. Burbank Unified	No	No	14,734	P	Q	Q
36. Compton Unified	No	No	24,460	P	Q	P
37. East Whittier City Elem.	No	No	8,574	P	Q	P
38. Eastside Union Elem.	No	Yes	3,068	P	Q	Q
39. El Rancho Unified	Yes	Yes	10,063	Q	Q	Q
40. Hawthorne Elem.	No	Yes	8,694	P	Q	Q
41. Inglewood Unified	Yes	Yes	12,828	N	N	Q
42. Lancaster Elem.	No	Yes	13,913	P	Q	Q
43. Lawndale Elem.	Yes	Yes	5,622	Q	Q	P
44. Los Angeles Unified	No	No	587,019	Q	Q	Q
45. Los Nietos Elem.	No	Yes	1,956	P	Q	Q
46. Lynwood Unified	Yes	Yes	15,602	Q	Q	N
47. Monrovia Unified	No	No	5,703	P	Q	Q
48. Montebello Unified	Yes	Yes	31,119	P	Q	Q
49. Newhall Elem.	Yes	Yes	6,829	Q	Q	Q
50. Norwalk-La Mirada Unified	No	No	19,996	Q	P	Q
51. Paramount Unified	No	No	15,017	P	Q	Q
52. Pomona Unified	Yes	Yes	27,620	P	Q	Q
53. Walnut Valley Unified	Yes	Yes	14,426	P	Q	P
54. William S. Hart Union High	No	No	22,213	Q	Q	Q
<b>Madera County</b>						
55. Yosemite Unified	No	Yes	1,972	Q	Q	P
<b>Mendocino County</b>						
56. Round Valley Unified	No	No	283	Q	Q	Q
57. Ukiah Unified	No	Yes	5,353	Q	Q	Q
58. Willits Unified	No	No	1,587	P	Q	P

## Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2009-10 Average Daily Attendance	2010-11 Interim Report		2009-10 Interim Report Second
				First	Second	
<b>Merced County</b>						
59. Dos Palos-Oro Loma Jt. Unified	Yes	Yes	2,365	N	N	Q
<b>Monterey County</b>						
60. King City Jt. Union High	Yes	Yes	1,902	N	N	Q
61. King City Union Elem.	No	Yes	2,269	Q <sup>1</sup>	Q	Q
62. North Monterey Co. Unified	No	Yes	4,265	Q	Q	Q
<b>Napa County</b>						
63. Napa Valley Unified	No	No	16,810	Q	P	P
<b>Orange County</b>						
64. Anaheim City Elem.	No	Yes	18,606	Q	Q	Q
65. Capistrano Unified	Yes	Yes	49,828	P	Q	Q
66. Centralia Elem.	Yes	Yes	4,417	Q	Q	Q
67. Fullerton Elem.	No	Yes	13,231	Q	Q	Q
68. Fullerton Jt. Union High	Yes	Yes	14,157	Q	Q	P
69. Garden Grove Unified	No	No	46,514	Q	Q	Q
70. La Habra City Elem.	No	Yes	5,345	P	Q	Q
71. Saddleback Valley Unified	No	No	31,112	Q	Q	Q
72. Santa Ana Unified	No	Yes	52,064	Q	Q	Q
73. Westminster Elem.	Yes	Yes	9,455	Q	Q	Q
<b>Placer County</b>						
74. Auburn Union Elem.	No	Yes	2,084	P	Q	Q
75. Colfax Elem.	No	No	365	Q <sup>1</sup>	P	Q
76. Loomis Union Elem.	No	No	2,418	Q	P	P
77. Placer Hills Union Elem.	No	Yes	1,020	Q	Q	Q
<b>Riverside County</b>						
78. Alvord Unified	No	Yes	18,861	Q	Q	Q <sup>1</sup>
79. Banning Unified	No	Yes	4,292	N	Q	P
80. Coachella Valley Unified	Yes	Yes	17,455	Q	Q <sup>1</sup>	Q <sup>1</sup>
81. Desert Sands Unified	Yes	Yes	27,692	Q	Q	Q
82. Jurupa Unified	No	Yes	19,467	P	Q	P
83. Moreno Valley Unified	No	Yes	34,202	P	Q	Q
84. Nuvview Union Elem.	Yes	Yes	1,892	Q	Q	Q
85. Palo Verde Unified	Yes	Yes	3,334	P	Q	Q
86. Perris Union High	No	Yes	9,741	P	Q	P
87. Riverside Unified	Yes	Yes	40,253	Q	Q	Q

## Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2009-10 Average Daily Attendance	2010-11 Interim Report		2009-10 Interim Report Second
				First	Second	
<b>Sacramento County</b>						
88. Center Jt. Unified	No	Yes	4,951	P	Q	P
89. Elk Grove Unified	No	Yes	59,374	Q	Q	Q
90. Folsom-Cordova Unified	No	Yes	18,243	Q	Q	Q
91. Galt Jt. Union High	No	Yes	2,132	P	Q	P
92. Natomas Unified	No	Yes	11,764	N	N	N
93. Robla Elem.	No	Yes	1,899	P	Q	Q
94. Sacramento City Unified	No	Yes	1,356	Q	Q	Q
95. San Juan Unified	No	Yes	45,028	Q	Q	Q
96. Twin Rivers Unified	No	No	25,598	Q	P	Q
<b>San Benito County</b>						
97. Hollister Elem.	Yes	Yes	5,350	N	N	Q
<b>San Bernardino County</b>						
98. Adelanto Elem.	No	Yes	7,863	P	Q	P
99. Alta Loma Elem.	No	Yes	6,236	P	Q	Q
100. Bear Valley Unified	No	No	2,703	Q	P	Q
101. Chino Valley Unified	Yes	Yes	30,777	Q	Q	Q
102. Colton Jt. Unified	Yes	Yes	22,151	Q	Q	P
103. Cucamonga Elem.	No	No	2,573	Q	P	P
104. Fontana Unified	No	Yes	38,982	Q	Q	P
105. Lucerne Valley Unified	No	Yes	1,459	P	Q	Q
106. Mountain View Elem.	Yes	Yes	2,780	P	Q	P
107. Mt. Baldy Jt. Elem.	No	No	101	Q	P	P
108. Snowline Jt. Unified	No	Yes	8,184	P	Q	P
109. Victor Elem.	No	Yes	11,002	P	Q	P
110. Victor Valley Union High	No	Yes	9,995	Q	Q	P
111. Yucaipa-Calimesa Jt. Unified	Yes	Yes	9,005	Q	Q	Q
<b>San Diego County</b>						
112. Borrego Springs Unified	No	No	449	Q	Q	P
113. La Mesa-Spring Valley Elem.	No	Yes	12,038	P	Q	Q
114. Mountain Empire Unified	No	No	1,554	Q	P	P
115. Ramona Unified	No	Yes	6,108	Q	Q	Q
116. San Marcos Unified	No	Yes	17,303	Q	Q	P
<b>San Joaquin County</b>						
117. Stockton Unified	No	Yes	35,705	Q	Q	P
<b>San Luis Obispo County</b>						
118. Atascadero Unified	Yes	Yes	4,621	Q	Q	Q

## Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2009-10 Average Daily Attendance	2010-11 Interim Report		2009-10 Interim Report Second
				First	Second	
119. Lucia Mar Unified	Yes	Yes	10,178	Q	Q	Q
120. Paso Robles Jt. Unified	No	No	6,482	Q <sup>1</sup>	Q <sup>1</sup>	Q
121. Pleasant Valley Jt. Union Elem.	Yes	Yes	114	Q	Q	Q
122. San Miguel Jt. Union Elem.	No	No	N/A	Q	Q	Q
123. Shandon Jt. Unified	No	Yes	287	Q	Q	Q <sup>1</sup>
<b>Santa Clara County</b>						
124. Alum Rock Union Elem.	No	Yes	12,423	P	Q	P
125. Berryessa Union Elem.	No	No	8,109	Q	P	P
126. East Side Union High	No	Yes	23,633	Q	Q	Q
127. Evergreen Elem.	No	Yes	12,934	P	Q	P
128. Franklin-McKinley Elem.	No	Yes	9,612	Q	Q	N <sup>1</sup>
129. Gilroy Unified	No	Yes	10,373	Q	Q	P
130. Los Altos Elem.	No	No	4,197	Q	Q	P
131. Orchard Elem.	No	No	827	Q	P	N <sup>1</sup>
<b>Santa Cruz County</b>						
132. Pajaro Valley Unified	No	Yes	18,522	P	Q	P
133. Santa Cruz City Schools	No	No	6,469	Q	Q	Q
134. Scotts Valley Unified	No	No	2,466	P	Q	P
<b>Shasta County</b>						
135. Anderson Union High	No	Yes	1,872	Q	Q	Q
136. Cascade Union Elem.	No	Yes	1,331	Q	Q	Q
137. Cottonwood Union Elem.	No	Yes	971	Q	Q	Q
138. North Cow Creek Elem.	No	Yes	267	P	Q	P
139. Pacheco Union Elem.	No	Yes	588	Q <sup>1</sup>	Q	Q
<b>Solano County</b>						
140. Dixon Unified	No	No	3,709	Q	Q	Q
141. Fairfield-Suisun Unified	No	Yes	20,647	Q	Q	Q
142. Travis Unified	Yes	Yes	5,029	N	N	N
143. Vallejo City Unified	No	No	N/A	N	N	N
<b>Sonoma County</b>						
144. Cloverdale Unified	Yes	Yes	1,430	N	N	N
145. Cotati-Rohnert Park Unified	Yes	Yes	5,868	N	N	N
146. Geyserville Unified	No	Yes	238	Q	Q	Q
147. Healdsburg Unified	No	No	N/A	N	N	N <sup>1</sup>
148. Sebastopol Union Elem.	No	No	781	Q	Q	Q
149. West Sonoma Co. Union High	Yes	Yes	2,135	Q	Q	Q

## Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2009-10 Average Daily Attendance	2010-11 Interim Report		2009-10 Interim Report Second
				First	Second	
<b>Stanislaus County</b>						
150. La Grange Elem.	Yes	Yes	13	Q	Q	P
151. Modesto City Schools	No	Yes	28,390	P	Q	P
152. Salida Union Elem.	No	Yes	2,749	P	Q	Q
153. Stanislaus Union Elem.	No	No	3,033	Q	P	Q
154. Waterford Unified	Yes	Yes	1,764	Q	Q	P
<b>Tehama County</b>						
155. Reeds Creek Elem.	No	No	140	Q	P	Q <sup>1</sup>
<b>Tulare County</b>						
156. Citrus South Tule Elem.	No	Yes	44	Q	Q	P
<b>Ventura County</b>						
157. Santa Paula Elem.	No	No	3,522	Q	Q	Q
<b>Yolo County</b>						
158. Woodland Jt. Unified	No	Yes	9,900	P	Q	P

Legend: P=Positive Q=Qualified N=Negative N/A=Not Available

<sup>1</sup> County office of education changed certification.

## Appendix B— Local Education Agencies Filing Qualified or Negative Interim Reports

County School District/County Office	1st/2nd Certification	Analysis of Key Indicators for Financial Difficulties							Independent Position Control <sup>8</sup>	Salaries and Benefits <sup>9</sup>
		Deficit Spending <sup>1</sup>	Other Revenues <sup>2</sup>	Revenue Limit <sup>3</sup>	Other Expenditures <sup>4</sup>	Contributions <sup>5</sup>	Reserves <sup>6</sup>	Declining Enrollment <sup>7</sup>		
<b>Alameda County:</b>										
1. Emery Unified	Q / P	✓	✓	✓	✓	✓	✓			
2. Hayward Unified	N / Q	✓	✓	✓	✓		✓	✓	✓	✓
3. Oakland Unified	Q / Q		✓	✓	✓	✓			✓	
<b>Amador County:</b>										
4. Amador COE	Q / P	✓	✓	✓	✓	✓			✓	✓
5. Amador Co. Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
<b>Butte County:</b>										
6. Chico Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
7. Durham Unified	P / Q	✓	✓	✓			✓	✓	✓	✓
<b>Contra Costa County:</b>										
8. John Swett Unified	Q / N	✓	✓	✓	✓	✓	✓			✓
9. Mt. Diablo Unified	Q / P	✓	✓	✓	✓	✓		✓	✓	
<b>El Dorado County:</b>										
10. Black Oak Mine Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
11. Gold Oak Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓			✓
12. Gold Trail Union Elem.	Q / P	✓	✓	✓	✓	✓	✓	✓		
13. Rescue Union Elem.	Q / Q	✓	✓	✓	✓	✓			✓	✓
<b>Fresno County:</b>										
14. Golden Plains Unified	P / N	✓	✓		✓	✓	✓		✓	✓
15. Kerman Unified	P / Q	✓	✓	✓	✓	✓	✓		✓	
16. Orange Center Elem.	P / Q		✓		✓				✓	
17. Raisin City Elem.	Q / Q	✓	✓	✓	✓	✓	✓			
18. Sierra Unified	Q / Q	✓	✓	✓	✓			✓	✓	✓
<b>Glenn County:</b>										
19. Willows Unified	Q / Q	✓	✓	✓	✓	✓		✓	✓	
<b>Humboldt County:</b>										
20. Mattole Unified	Q / P	✓	✓	✓	✓	✓				
21. Scotia Union Elem.	Q / Q	✓	✓	✓	✓	✓				
<b>Imperial County:</b>										
22. Calexico Unified	P / Q	✓	✓	✓	✓	✓	✓		✓	
23. Imperial Unified	P / Q	✓	✓	✓	✓	✓				
<b>Kern County:</b>										
24. El Tejon Unified	Q / Q	✓		✓	✓	✓	✓	✓	✓	

## Appendix B (continued)

County	School District/County Office	Analysis of Key Indicators for Financial Difficulties								
		1st/2nd Certification	Deficit Spending <sup>1</sup>	Other Revenues <sup>2</sup>	Revenue Limit <sup>3</sup>	Other Expenditures <sup>4</sup>	Contributions <sup>5</sup>	Reserves <sup>6</sup>	Declining Enrollment <sup>7</sup>	Independent Position Control <sup>8</sup>
	25. Lost Hills Union Elem.	P / Q	✓	✓		✓	✓		✓	✓
	26. Muroc Jt. Unified	Q / Q	✓	✓	✓	✓	✓	✓		✓
	27. Panama-Buena Vista Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓		✓
	28. Rosedale Union Elem.	P / Q	✓	✓		✓	✓	✓	✓	✓
	29. Southern Kern Unified	N / N	✓	✓	✓	✓	✓	✓	✓	✓
	30. Taft City Elem.	P / Q	✓	✓	✓	✓		✓		✓
	31. Tehachapi Unified	P / Q	✓	✓	✓	✓		✓	✓	✓
<b>Lake County:</b>										
	32. Kelseyville Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓
<b>Los Angeles County:</b>										
	33. Antelope Valley Union High	Q / Q	✓	✓	✓	✓			✓	✓
	34. Bellflower Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓
	35. Burbank Unified	P / Q	✓	✓	✓	✓	✓	✓		✓
	36. Compton Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓
	37. East Whittier City Elem.	P / Q	✓	✓			✓	✓		
	38. Eastside Union Elem.	P / Q	✓		✓		✓	✓		✓
	39. El Rancho Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓
	40. Hawthorne Elem.	P / Q	✓	✓	✓			✓	✓	
	41. Inglewood Unified	N / N	✓	✓	✓	✓	✓	✓	✓	✓
	42. Lancaster Elem.	P / Q	✓	✓		✓	✓	✓	✓	
	43. Lawndale Elem.	Q / Q	✓	✓	✓	✓	✓	✓		
	44. Los Angeles Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓
	45. Los Nietos Elem.	P / Q	✓	✓	✓	✓	✓		✓	✓
	46. Lynwood Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓
	47. Monrovia Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓
	48. Montebello Unified	P / Q	✓			✓	✓	✓	✓	✓
	49. Newhall Elem.	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓
	50. Norwalk-La Mirada Unified	Q / P	✓	✓	✓			✓	✓	✓
	51. Paramount Unified	P / Q	✓	✓		✓	✓	✓		
	52. Pomona Unified	P / Q	✓	✓		✓	✓		✓	✓
	53. Walnut Valley Unified	P / Q	✓			✓	✓	✓		✓
	54. William S. Hart Union High	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓
<b>Madera County:</b>										
	55. Yosemite Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓

## Appendix B (continued)

County	School District/County Office	1st/2nd Certification	Analysis of Key Indicators for Financial Difficulties							Independent Position Control <sup>8</sup>	Salaries and Benefits <sup>9</sup>
			Deficit Spending <sup>1</sup>	Other Revenues <sup>2</sup>	Revenue Limit <sup>3</sup>	Other Expenditures <sup>4</sup>	Contributions <sup>5</sup>	Reserves <sup>6</sup>	Declining Enrollment <sup>7</sup>		
<b>Mendocino County:</b>											
	56. Round Valley Unified	Q / Q	✓	✓	✓	✓		✓			✓
	57. Ukiah Unified	Q / Q	✓	✓	✓	✓	✓	✓			
	58. Willits Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	
<b>Merced County:</b>											
	59. Dos Palos-Oro Loma Jt. Unified	N / N	✓	✓		✓	✓		✓	✓	
<b>Monterey County:</b>											
	60. King City Jt. Union High	N / N	✓	✓	✓	✓	✓	✓	✓	✓	✓
	61. King City Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
	62. North Monterey Co. Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
<b>Napa County:</b>											
	63. Napa Valley Unified	Q / P	✓	✓	✓	✓	✓	✓		✓	
<b>Orange County:</b>											
	64. Anaheim City Elem.	Q / Q	✓	✓	✓	✓	✓	✓		✓	
	65. Capistrano Unified	P / Q	✓	✓	✓	✓	✓			✓	✓
	66. Centralia Elem.	Q / Q	✓	✓	✓	✓			✓	✓	✓
	67. Fullerton Elem.	Q / Q	✓	✓	✓	✓	✓			✓	✓
	68. Fullerton Jt. Union High	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	69. Garden Grove Unified	Q / Q	✓	✓	✓	✓	✓				✓
	70. La Habra City Elem.	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	71. Saddleback Valley Unified	Q / Q	✓	✓	✓		✓	✓	✓	✓	✓
	72. Santa Ana Unified	Q / Q	✓	✓	✓	✓	✓			✓	✓
	73. Westminster Elem.	Q / Q	✓		✓	✓	✓	✓	✓		
<b>Placer County:</b>											
	74. Auburn Union Elem.	P / Q	✓	✓	✓	✓	✓	✓	✓		✓
	75. Colfax Elem.	Q / P		✓	✓		✓		✓		✓
	76. Loomis Union Elem.	Q / P	✓	✓	✓	✓				✓	✓
	77. Placer Hills Union Elem.	Q / Q	✓	✓	✓	✓	✓		✓		✓
<b>Riverside County:</b>											
	78. Alford Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
	79. Banning Unified	N / Q	✓	✓	✓	✓	✓	✓	✓	✓	
	80. Coachella Valley Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
	81. Desert Sands Unified	Q / Q	✓	✓	✓	✓	✓	✓			
	82. Jurupa Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	
	83. Moreno Valley Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	

## Appendix B (continued)

County	School District/County Office	Analysis of Key Indicators for Financial Difficulties									
		1st/2nd Certification	Deficit Spending <sup>1</sup>	Other Revenues <sup>2</sup>	Revenue Limit <sup>3</sup>	Other Expenditures <sup>4</sup>	Contributions <sup>5</sup>	Reserves <sup>6</sup>	Declining Enrollment <sup>7</sup>	Independent Position Control <sup>8</sup>	Salaries and Benefits <sup>9</sup>
	84. Nuview Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓		✓	
	85. Palo Verde Unified	P / Q	✓	✓	✓	✓	✓	✓			
	86. Perris Union High	P / Q	✓	✓	✓	✓					✓
	87. Riverside Unified	Q / Q	✓	✓	✓	✓	✓		✓	✓	
<b>Sacramento County:</b>											
	88. Center Jt. Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	89. Elk Grove Unified	Q / Q	✓	✓	✓	✓	✓	✓			✓
	90. Folsom-Cordova Unified	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
	91. Galt Jt. Union High	P / Q	✓		✓	✓			✓	✓	✓
	92. Natomas Unified	N / N	✓	✓	✓	✓	✓	✓	✓		
	93. Robla Elem.	P / Q	✓		✓			✓			✓
	94. Sacramento City Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
	95. San Juan Unified	Q / Q	✓	✓	✓	✓	✓		✓		
	96. Twin Rivers Unified	Q / P	✓	✓	✓	✓	✓	✓			✓
<b>San Benito County:</b>											
	97. Hollister Elem.	N / N	✓	✓	✓	✓	✓	✓	✓	✓	✓
<b>San Bernardino County:</b>											
	98. Adelanto Elem.	P / Q	✓	✓	✓		✓		✓		✓
	99. Alta Loma Elem.	P / Q	✓	✓	✓		✓				
	100. Bear Valley Unified	Q / P	✓	✓	✓	✓	✓	✓	✓		✓
	101. Chino Valley Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
	102. Colton Jt. Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓		
	103. Cucamonga Elem.	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
	104. Fontana Unified	Q / Q	✓	✓	✓	✓	✓		✓		✓
	105. Lucerne Valley Unified	P / Q	✓	✓	✓	✓	✓	✓	✓		✓
	106. Mountain View Elem.	P / Q	✓	✓	✓	✓	✓	✓	✓		
	107. Mt. Baldy Jt. Elem.	Q / P	✓	✓	✓	✓		✓			
	108. Snowline Jt. Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	
	109. Victor Elem.	P / Q	✓	✓		✓		✓			
	110. Victor Valley Union High	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
	111. Yucaipa-Calimesa Jt. Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
<b>San Diego County:</b>											
	112. Borrego Springs Unified	Q / Q	✓	✓	✓	✓	✓				✓
	113. La Mesa-Spring Valley Elem.	P / Q					✓		✓	✓	✓

## Appendix B (continued)

County	School District/County Office	1st/2nd Certification	Analysis of Key Indicators for Financial Difficulties								
			Deficit Spending <sup>1</sup>	Other Revenues <sup>2</sup>	Revenue Limit <sup>3</sup>	Other Expenditures <sup>4</sup>	Contributions <sup>5</sup>	Reserves <sup>6</sup>	Declining Enrollment <sup>7</sup>	Independent Position Control <sup>8</sup>	Salaries and Benefits <sup>9</sup>
	114. Mountain Empire Unified	Q / P		✓	✓	✓	✓	✓			
	115. Ramona Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	116. San Marcos Unified	Q / Q	✓	✓	✓	✓	✓	✓		✓	
<b>San Joaquin County:</b>											
	117. Stockton Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
<b>San Luis Obispo County:</b>											
	118. Atascadero Unified	Q / Q	✓	✓	✓	✓	✓	✓			
	119. Lucia Mar Unified	Q / Q	✓	✓	✓	✓	✓		✓	✓	
	120. Paso Robles Jt. Unified	Q / Q	✓	✓	✓	✓	✓			✓	
	121. Pleasant Valley Jt. Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
	122. San Miguel Jt. Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓			
	123. Shandon Jt. Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓		
<b>Santa Clara County:</b>											
	124. Alum Rock Union Elem.	P / Q	✓		✓		✓	✓	✓	✓	
	125. Berryessa Union Elem.	Q / P	✓	✓	✓	✓	✓		✓	✓	
	126. East Side Union High	Q / Q	✓	✓	✓		✓	✓	✓	✓	
	127. Evergreen Elem.	P / Q	✓	✓	✓			✓		✓	
	128. Franklin-McKinley Elem.	Q / Q	✓	✓	✓		✓	✓		✓	✓
	129. Gilroy Unified	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
	130. Los Altos Elem.	Q / Q	✓	✓	✓		✓			✓	✓
	131. Orchard Elem.	Q / P	✓	✓	✓	✓	✓			✓	
<b>Santa Cruz County:</b>											
	132. Pajaro Valley Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	
	133. Santa Cruz City Schools	Q / Q	✓	✓	✓	✓	✓	✓			✓
	134. Scotts Valley Unified	P / Q	✓	✓		✓	✓	✓			
<b>Shasta County:</b>											
	135. Anderson Union High	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
	136. Cascade Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
	137. Cottonwood Union Elem.	Q / Q	✓	✓	✓	✓	✓		✓		✓
	138. North Cow Creek Elem.	P / Q	✓		✓	✓	✓		✓		✓
	139. Pacheco Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
<b>Solano County:</b>											
	140. Dixon Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
	141. Fairfield-Suisun Unified	Q / Q	✓	✓	✓	✓	✓		✓		
	142. Travis Unified	N / N	✓	✓	✓	✓	✓	✓			✓

## Appendix B (continued)

County	School District/County Office	1st/2nd Certification	Analysis of Key Indicators for Financial Difficulties							Independent Position Control <sup>8</sup>	Salaries and Benefits <sup>9</sup>
			Deficit Spending <sup>1</sup>	Other Revenues <sup>2</sup>	Revenue Limit <sup>3</sup>	Other Expenditures <sup>4</sup>	Contributions <sup>5</sup>	Reserves <sup>6</sup>	Declining Enrollment <sup>7</sup>		
	143. Vallejo City Unified	N / N	✓	✓	✓	✓			✓	✓	✓
<b>Sonoma County:</b>											
	144. Cloverdale Unified	N / N	✓	✓	✓	✓	✓	✓	✓		✓
	145. Cotati-Rohnert Park Unified	N / N	✓	✓	✓	✓	✓	✓	✓		✓
	146. Geyserville Unified	Q / Q	✓	✓	✓	✓	✓		✓		
	147. Healdsburg Unified	N / N	✓	✓		✓	✓	✓	✓	✓	✓
	148. Sebastopol Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓	✓		
	149. West Sonoma Co. Union High	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
<b>Stanislaus County:</b>											
	150. La Grange Elem.	Q / Q		✓	✓	✓	✓	✓	✓		✓
	151. Modesto City Schools	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	152. Salida Union Elem.	P / Q	✓	✓	✓		✓	✓	✓		
	153. Stanislaus Union Elem.	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	
	154. Waterford Unified	Q / Q	✓	✓	✓	✓		✓	✓	✓	✓
<b>Tehama County:</b>											
	155. Reeds Creek Elem.	Q / P	✓	✓	✓	✓	✓			✓	
<b>Tulare County:</b>											
	156. Citrus South Tule Elem.	Q / Q	✓	✓	✓		✓	✓	✓	✓	✓
<b>Ventura County:</b>											
	157. Santa Paula Elem.	Q / Q	✓	✓	✓	✓	✓	✓		✓	
<b>Yolo County:</b>											
	158. Woodland Jt. Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓

Legend: P=Positive Q=Qualified N=Negative

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<sup>1</sup> Unrestricted deficit spending has exceeded the standard in any of the current or two subsequent fiscal years.

<sup>2</sup> Projected operating revenues (e.g., federal, other state) for the current and two subsequent fiscal years changed by more than 5% since budget adoption or first interim report.

<sup>3</sup> Projected revenue limit for any of the current or two subsequent fiscal years changed by more than 2% since budget adoption or first interim report.

<sup>4</sup> Projected operating expenditures (e.g., books and supplies) for the current and two subsequent fiscal years changed by more than 5% since budget adoption or first interim report.

<sup>5</sup> Contributions from unrestricted to restricted resources, or transfers to or from the general fund to cover operating deficits, changed by more than \$20,000 and more than 5% since budget adoption for any of the current or two subsequent fiscal years.

<sup>6</sup> Available reserves (e.g., designated for economic uncertainties, undesignated amounts) did not meet minimum requirements for the current and two subsequent fiscal years.

<sup>7</sup> Enrollment decreased in both the prior and the current fiscal years.

<sup>8</sup> The system of personnel position control is independent from the payroll system.

<sup>9</sup> Projected ratio of total unrestricted salaries and benefits to total unrestricted general fund expenditures has not changed by more than the standard for the current and two subsequent fiscal years.

## Appendix C— Summary of Audit Report Compliance Findings

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>	
<b>STATE</b>			
Attendance Requirements	ADA overstated by 0-5 ADA	39	
	ADA overstated by 5-10 ADA	3	
	ADA overstated by 10-20 ADA	2	
	ADA overstated by over 20 ADA	2	
	ADA understated by 0-5 ADA	13	
	ADA understated by 5-10 ADA	4	
	ADA understated by over 20 ADA	1	
	Absences were claimed for apportionment	13	
	Attendance accounting system not approved by CDE	1	
	Attendance registers/Scantrons not signed by teachers	13	
	Attendance report did not reconcile to supporting documentation	10	
	Attendance report inaccurate/incomplete	26	
	Excused absences – problems with verification procedures/documentation	7	
	Excused/unexcused absences improperly recorded	1	
	Lack of documentation/records	5	
	Minimum day requirements not met	1	
	Teacher not authorized to instruct limited-English-proficient pupils	4	
	Teacher providing instruction outside of credential subject	1	
	Teacher(s) did not possess a valid certification document	4	
	Kindergarten retention forms are not maintained and/or properly approved	25	
	Kindergarten retention form did not include required elements	3	
	Kindergarten student not eligible for admittance to Kindergarten	1	
	Kindergarten – other finding	1	
	Special Education – Nonpublic Schools: Attendance accounting deficiency	1	
	Community Day Schools	Attendance report inaccurate	2
	Continuation Education	Attendance accounting deficiency	19
		Other finding	1
Independent Study	Attendance overstated	10	
	Contract(s) did not include all required elements	23	
	Other finding	3	
	Work samples not maintained	3	
Adult Education	Attendance accounting deficiency	1	
	Reported revenue erroneous	1	
Ratio of Administrative Employees to Teachers	Number of administrators per hundred teachers exceeded the allowable ratio	2	
	District has not performed ratio calculation	1	
	Ratio calculation is incorrect	2	
After School Education and Safety Program	Administrative costs exceeded 15% of state funding	4	
	Indirect costs overstated	2	
	LEA did not establish policy regarding reasonable early daily release of pupils	8	
	LEA did not establish policy regarding reasonable late daily arrival of pupils	3	
	Noncompliance with matching requirements	4	
	Other finding	1	
	Reported number of students served not supported by written records or does not reconcile to supporting documents	59	
	Reported students served inconsistent with early release policy	7	
Reported students served inconsistent with late arrival policy	1		

## Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
<b>STATE (continued)</b>		
Annual Instructional Minutes	Classroom Based—Instructional time requirements not met	2
Child Development	Reported revenue erroneous	1
	Lack of documentation/records	1
Class-Size Reduction	Lack of documentation/records	1
	Number of classes and pupils reported on Form J-7CSR overstated	24
	Number of classes and pupils reported on Form J-7CSR understated	38
	Positive daily enrollment records/counts not maintained	1
	Other finding	4
Classroom Teacher Salaries	District did not meet the current expense of education percentage required for payment of classroom teacher salaries	15
Determination of Funding for Non-classroom-Based Instruction	Other finding	1
	Total reported expenditures for instruction and related services overstated	1
Instructional Time	Instructional time requirements not met	1
	Lack of documentation/records	3
	Other finding	1
Inventory of Equipment	Inventory of equipment not maintained	10
Other State Programs	Expenditures overstated	1
	Other finding	2
Public Hearing Requirement – Receipt of Funds	Governing board did not discuss or approve/disapprove the proposed use of funding for 39 programs at a public hearing	5
School Accountability Report Card (SARC)	District did not follow uniform complaint process	6
	Other finding	3
	SARC information inconsistent with availability of sufficient textbooks and other instructional materials	1
	SARC information inconsistent with complaints related to teacher misassignments of vacancies	2
	SARC information inconsistent with evaluation instrument	44
	SARC not published	13
Instructional Materials	Adopted/nonadopted instructional materials requirements not followed	1
	Board resolution did not address sufficiency of textbooks/instructional materials	7
	Notice of public hearing deficiency	14
	Public hearing on instructional materials not held or held after the required time period	<u>27</u>
<b>TOTAL STATE FINDINGS</b>		<u><b>568</b></u>

## Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
<b>FEDERAL</b>		
Federal ARRA Program	Child Nutrition Discretionary Grants (Equipment): Cash	1
	Child Nutrition Discretionary Grants (Equipment): Equipment and real property management	1
	Rehabilitation Services: Vocational Rehabilitation Grants to States: Procurement and suspension and debarment	1
	Special Education: Allowable costs/cost principles	27
	Special Education: Cash management	13
	Special Education: Equipment and real property management	1
	Special Education: Procurement, and suspension, and debarment	3
	Special Education: Special tests and provisions	2
	State Fiscal Stabilization Fund: Cash management	27
	State Fiscal Stabilization Fund: Allowable costs/cost principles	1
	State Fiscal Stabilization Fund: Procurement, and suspension, and debarment	2
	State Fiscal Stabilization Fund: Reported revenue erroneous	1
	State Fiscal Stabilization Fund: Reporting	2
	State Fiscal Stabilization Fund: Subrecipient monitoring	1
	Title I: Allowable costs/cost principles	14
	Title I: Cash management	13
	Title I: Eligibility	1
	Title I: Equipment and real property management	4
	Title I: Matching, level of effort, earmarking	3
	Title I: Procurement and suspension and debarment	5
Title I: Special tests and provisions	4	
Child Nutrition Cluster– National School Lunch	Activities allowed or unallowed	11
	Allowable costs/cost principles	3
	Eligibility	7
	Other finding	4
	Reporting	1
	Special tests and provisions	6
English Language Acquisition Grants	Special tests and provisions	1
Federal Program	Multi-funded positions are not supported by time distribution	3
	Noncompliance with requirements for allowable costs/cost principles	17
	Noncompliance with requirements for cash management	20
	Noncompliance with requirements for equipment and real property management	1
	Noncompliance with requirements for matching, level of effort, and earmarking	1
	Noncompliance with requirements for period of availability of federal funds	1
	Noncompliance with requirements for procurement, and suspension, and debarment	6
	Other finding	4
Special tests and provisions	2	
Gaining Early Awareness and Readiness for Undergraduate Programs	Matching	1
	Reporting	1

## Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
<b>FEDERAL (continued)</b>		
Other Federal Program	Allowable costs/cost principles	3
	Reporting	1
	Procurement and suspension and debarment	1
	Subrecipient monitoring	2
Safe and Drug-Free Schools	Activities allowed or unallowed	1
School Breakfast Program	Activities allowed or unallowed	1
Special Education	Allowable costs/cost principles	14
	Special tests and provisions	4
Title I—Grants to LEAs	Allowable costs/cost principles	13
	Cash management	5
	Eligibility	5
	Equipment and real property management	2
	Expenditures overstated	1
	Lack of documentation/records	3
	Matching, level of effort, earmarking	7
	Other finding	2
	Period of availability of federal funds	2
	Procurement and suspension and debarment	2
Special tests and provisions	7	
Title II, Improving Teacher Quality State Grants	Allowable costs/cost principles	2
Twenty-First Century Community Learning Centers	Allowable costs/cost principles	1
	Reporting	2
Vocational Education	Reporting	<u>1</u>
TOTAL FEDERAL FINDINGS		<u>299</u>
TOTAL STATE AND FEDERAL FINDINGS		<u>867</u>

## Appendix D - Summary of Audit Report Deficiencies

Description	Number of Findings	
	FY 2008-09	FY 2009-10
<u>Independent Auditor's Report</u>		
Auditor's report did not identify the supplementary information, including Schedule of Expenditures of Federal Awards.	11	31
Auditor's report did not include an opinion on supplementary information.	43	18
Disclaimer of opinion was issued, but did not include sufficient information.	1	0
Introductory paragraph of auditor's report did not clearly identify financial statements covered by auditor's opinion.	22	2
Qualified opinion due to scope limitation: explanatory paragraph and/or possible effects on financial statements were not disclosed.	1	0
Reference to a separate report on internal control over financial reporting and on compliance was deficient.	4	5
Reference to a separate report on internal control over financial reporting and on compliance was not included.	4	2
Report does not reference the required supplementary information (RSI).	0	4
Report does not state that the auditor applied limited procedures to the RSI.	1	0
Subtotal	87	62
<u>Management's Discussion and Analysis</u>		
Management's Discussion and Analysis was not included.	0	5
<u>Basic Financial Statements</u>		
Governmental entity: Balance Sheet - Governmental Funds was not properly presented.	5	1
Governmental entity: Reconciliation of Governmental Funds Statement of Rev., Exp., and Changes in Fund Balances to Statement of Activities was not properly presented.	5	3
Governmental entity: Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets was not properly presented.	6	0
Governmental entity: Statement of Activities was not properly presented.	6	3
Governmental entity: Statement of Changes in Fiduciary Net Assets - Fiduciary Funds was not properly presented.	4	1
Governmental entity: Statement of Net Assets was not properly presented.	2	1
Governmental entity: Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds was not properly presented.	6	0
Governmental entity: Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds was not properly presented.	1	0
Non-profit entity: Statement of Activities was not properly presented.	8	3
Non-profit entity: Statement of Cash Flows was not properly presented.	33	2
Non-profit entity: Statement of Financial Position was not properly presented.	2	2
Subtotal	78	16

## Appendix D (continued)

Description	Number of Findings	
	FY 2008-09	FY 2009-10
<u>Notes to the Financial Statements</u>		
All component units and/or joint ventures (JPAs) related to the entity were not identified.	0	3
Material prior period restatements or adjustments were not adequately disclosed.	1	1
Notes did not adequately describe criteria used in determining whether other entities should be considered component units of the reporting entity.	4	5
Notes did not include adequate disclosure of capital assets and depreciation.	0	1
Notes did not include adequate disclosure with respect to long-term debt.	42	5
Other post-employment benefits were not adequately disclosed.	1	4
Pension obligations were not adequately disclosed.	21	0
Reserves were not appropriate; and/or their nature and purpose were not clear.	2	0
Subtotal	71	19
<u>Required Supplementary Information</u>		
Schedule of budgetary comparison data for general fund and/or major special revenue fund(s) were not included.	1	0
<u>Supplementary Information Section</u>		
A note stating that the LEA received funding for increasing instructional time was not included.	1	1
Available reserves are below minimum required; and management's plans and/or going concern note was not included.	2	2
Local Education Agency Organization Structure description was not included or was deficient.	17	11
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements was not included.	1	3
Schedule of Average Daily Attendance did not display final ADA after audit finding adjustment.	0	10
Schedule of Average Daily Attendance for charter school did not include classroom-based ADA.	26	3
Schedule of Average Daily Attendance was deficient.	14	19
Schedule of Charter Schools was not included or was deficient.	11	12
Schedule of Expenditures of Federal Awards was deficient.	42	63
Schedule of Expenditures of Federal Awards was not included.	0	1
Schedule of Financial Trends and Analysis was not included; or schedule was deficient.	5	3
Schedule of Instructional Time did not contain all the required information.	18	44
Schedule of Instructional Time does not state whether the district complied with the instructional minutes and days provisions.	5	1

## Appendix D (continued)

Description	Number of Findings	
	FY 2008-09	FY 2009-10
Schedule of instructional time indicates noncompliance, but a finding is not included in report.	4	2
Schedule of Instructional Time was not included.	1	3
STRS early retirement note was not included; or disclosure was deficient.	10	3
Subtotal	157	181
<u>Government Auditing Standards Report</u>		
Government Auditing Standards report was not updated in accordance with SAS 115.	0	14
Report did not include a statement regarding the auditee's response to findings.	48	4
Report did not state that audit was conducted in accordance with auditing standards generally accepted in the USA and <i>Government Auditing Standards</i> .	0	1
Report on compliance and other matters did not include a statement regarding test results.	7	0
Report on compliance and other matters did not include a statement that the auditor performed tests of compliance.	1	1
Report on internal control and compliance (GAS) did not reference the Independent Auditor's Report.	3	2
Report on Internal Control over Financial Reporting and on Compliance and Other Matters ( <i>Government Auditing Standards</i> ) was not included.	1	0
Report on internal control over financial reporting was deficient.	45	26
Subtotal	105	48
<u>Management letter</u>		
Management letter not included in audit report.	14	9
<u>Single Audit Report</u>		
Report did not include a statement regarding the auditee's response to findings.	4	1
Report on compliance with requirements applicable to each major federal program was deficient.	3	4
Report on internal control over compliance was deficient.	8	0
Report on major program compliance and on internal control over compliance (OMB Circular A-133) was not included.	0	11
Single Audit Report was not updated in accordance with SAS 117.	0	102
Subtotal	15	118
<u>State Compliance Report</u>		
Auditor's Report on State Compliance did not include a statement regarding legal restrictions on report distribution.	1	1
Auditor's Report on State Compliance was deficient.	89	35
Auditor's Report on State Compliance was not included.	1	1

## Appendix D (continued)

Description	Number of Findings	
	FY 2008-09	FY 2009-10
Report cites incorrect reference for K-12 audit guide.	6	4
Subtotal	97	41
<u>Findings and Recommendation Section</u>		
Audit finding was not coded with the correct five-digit number.	6	10
Auditee's corrective action plan to eliminate noncompliance was not included.	1	0
Federal Program Finding(s): Noncompliance was reported; however, the finding(s) did not include sufficient information.	24	61
Federal Program Finding(s): Questioned costs and/or how they were calculated not included.	20	22
Major federal programs were not identified.	2	3
Questioned or unsupported costs material to the financial statements were not properly disclosed.	0	1
Schedule of Findings and Questioned Costs was not included.	4	3
Schedule of Prior Audit Findings was not included.	2	4
State Program Finding(s): Financial impact not quantified in terms of dollars or ADA.	26	30
State Program Finding(s): Noncompliance was reported; however, the finding(s) did not include sufficient information.	26	27
Sufficient information for judging the prevalence and consequences of noncompliance was not included.	2	2
Summary of Auditor's Results was deficient.	50	15
Subtotal	163	178
<u>Other</u>		
Audit report did not adequately disclose fraudulent or illegal acts; and/or the auditor's opinion was not modified.	2	0
Auditor's reports did not include a manual or printed signature of the auditor's firm and date of the report.	4	2
Subtotal	6	2
Total number of findings	794	679

## Appendix E— American Recovery and Reinvestment Act of 2009

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The American Recovery and Reinvestment Act of 2009 (ARRA, commonly referred to as The Stimulus or The Recovery Act) is an economic stimulus package enacted by the 111th United States Congress in February 2009.

The stimulus package was intended to create jobs and promote investment and consumer spending during the recession. A direct response to the economic crisis, the Recovery Act has three immediate goals:

- Create new jobs and save existing ones;
- Spur economic activity and invest in long-term growth; and
- Foster unprecedented levels of accountability and transparency in government spending.

The Recovery Act intends to achieve those goals by:

- Providing \$288 billion in tax cuts and benefits for millions of working families and businesses;
- Increasing federal funds for education and health care as well as entitlement programs (such as extending unemployment benefits) by \$224 billion;
- Making \$275 billion available for federal contracts, grants, and loans; and
- Requiring recipients of Recovery funds to report quarterly on how they are using the money. To ensure transparency and accountability of Recovery Act spending, recipients are required to report quarterly on ARRA awards, spending, and jobs impact. The data is posted on [www.Recovery.gov](http://www.Recovery.gov) so that the public can track the Recovery funds.

As of September 30, 2010, the U.S. Department of Education's entire \$97.4 billion in Recovery Act grants have been awarded nationwide. Some of the programs funded through the Recovery Act by the U.S. Department of Education to the State of California include the following:

### State Fiscal Stabilization Funds

The State Fiscal Stabilization Fund program is a new one-time appropriation of \$53.6 billion under the ARRA. These funds are distributed directly to states to:

- Help stabilize state and local government budgets in order to minimize and avoid reductions in education and other essential public services.
- Help ensure that local educational agencies (LEAs) and public institutions of higher education (IHEs) have the resources to avert cuts and retain personnel.
- Help support the modernization, renovation, and repair of school and college facilities.
- Help advance early learning through post-secondary education reforms to benefit students and families.

California was the first state in the nation to receive approval for a share of the State Fiscal Stabilization Fund dollars within the American Recovery and Reinvestment Act. That action meant that California school districts were immediately eligible for \$3.1 billion in Recovery Act funding intended to prevent the need to lay off teachers, professors, and other school employees, and to protect education funding and reform efforts during this difficult economic time.

*A total of \$6.05 billion in State Fiscal Stabilization funds had been awarded to California.*

#### Title I, Part A—Supporting Low–Income Schools

The ARRA provides \$10 billion in additional Title I, Part A funds to state education agencies and local education agencies to support schools that have high concentrations of students from families who live in poverty, in order to help improve teaching and learning for students most at risk of failing to meet state academic achievement standards.

*A total of \$1.12 billion in Title I funds had been awarded to California.*

#### IDEA Grants, Parts B and C—Improving Special Education Programs

The ARRA provides \$12.2 billion in additional funding for Parts B and C of the Individuals with Disabilities Education Act (IDEA). Part B of the IDEA provides funds to state educational agencies and local educational agencies to help ensure that children with disabilities, including children aged three through five, have access to a free, appropriate public education to meet each child's unique needs, and prepare him or her for further education, employment, and independent living. Part C of the IDEA provides funds to each state lead agency designated by the Governor to implement statewide systems of coordinated, comprehensive, multidisciplinary interagency programs and make early intervention services available to infants and toddlers with disabilities and to their families.

*A total of \$1.33 billion in IDEA funds had been awarded to California.*

#### Education Technology Grants

The ARRA provides \$650 million in additional funding for Education Technology Grants. The primary goal of the Education Technology Grants program is to improve student academic achievement through the use of technology in schools. It is also designed to help ensure that every student is technologically literate by the end of eighth grade and to encourage the effective integration of technology with teacher training and curriculum development.

*A total of \$71.57 million in Education Technology Grants had been awarded to California.*

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