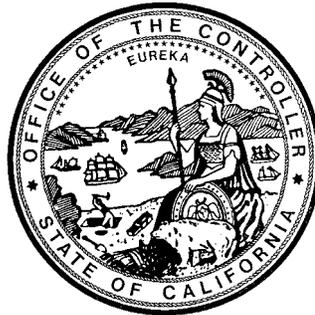


ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS

Report to the Superintendent of Public Instruction

For the Period of July 1, 2002, through June 30, 2003



STEVE WESTLY
California State Controller

July 2004



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California State Controller

July 30, 2004

Mr. Jack O'Connell
State Superintendent of Public Instruction
California Department of Education
P.O. Box 944272
Sacramento, CA 94244-2720

Dear Mr. O'Connell:

I am pleased to announce the completion of the *Annual Financial Report of California K-12 Schools* for 2004. The report summarizes the financial and program compliance status of the State's school districts and county offices of education for fiscal year (FY) 2002-03. As such, the report will be useful in helping you and the Legislature plan for California's future educational needs.

For FY 2002-03, the financial health of most of California's 982 school districts and 58 county offices of education was stable. For the 12th consecutive year, school districts overall spent less money than they received—an indication that districts are maintaining reserves and spending within their means. The number of districts and county offices of education filing negative or qualified interim certifications decreased slightly, from 71 in FY 2002-03 to 64 in FY 2003-04. In addition, state and federal compliance findings noted in the independent auditors' reports of school districts decreased from the prior year. There were 987 compliance findings in FY 2002-03, a 2.9% decrease from the 1,016 reported in FY 2001-02.

Although there appears to be fiscal stability, the fact that the number of school districts engaged in multi-year deficit spending increased significantly—from 75 districts in FY 2001-02 to 248 districts in FY 2002-03—may be cause for concern, and long-term borrowing increased by 29%. In addition, 31% of the compliance findings were related to deficiencies in attendance accounting, the primary basis for allocation of state funding. Also, the independent audit reports noted that 11% of the 886 school districts participating in the class-size reduction program failed to fully comply with program reporting requirements. These districts and programs should be closely monitored to ensure that these problems are addressed.

Please direct any comments regarding the content of the report to Vince Brown, Chief Operations Officer, at (916) 445-3028.

Sincerely,

STEVE WESTLY
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 and county offices of education and to function as the independent protector of taxpayer dollars.

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 *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.

- Fiscal year (FY) 2002-03 marked the 12th consecutive year that California's local educational agencies as a whole did not spend more money than they received—an indication that the agencies are maintaining reserves and spending within their means.
- Three school districts had very low fund reserves (1% or less of their general fund expenditures)¹ in FY 2002-03.
- The number of districts engaged in multi-year deficit spending increased significantly during FY 2002-03. Compared to 75 districts in the prior year, 248 districts in FY 2002-03 engaged in multi-year deficit spending, a 230.6% 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 \$1.84 billion during FY 2002-03 to a total of \$8.09 billion, compared to \$6.25 billion in the prior year, a 29% 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 decreased slightly, from 71 in FY 2002-03 to 64 in FY 2003-04. Thirty-five school districts filed qualified interim financial reports and nine school districts filed negative interim financial reports in the second reporting period of FY 2003-04, indicating that they may not meet their current and future financial obligations. Continuing financial difficulties may have a negative impact on these districts' educational programs.

¹ Title 5, *California Code of Regulations*, Sections 15443 and 15456, establishes standards for minimum reserves.

- The number of state and federal compliance findings in FY 2002-03 decreased from the prior year. Approximately 31% of the compliance findings are related to deficiencies in average daily attendance (ADA) accounting, which is the primary factor in determining the amount of funding a school district receives from the State.
- The school districts' annual audit reports disclosed 101 audit findings for the 886 elementary school districts participating in the class-size reduction program. There were also 49 audit findings for the 982 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 2002-03. Additional data came from interim financial report certifications submitted by school districts during FY 2003-04.

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:

- Developing an annual audit guide², which prescribes financial statements and other information that should be included in each school district's audit report, and 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 audits³;
- 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 apportionment loans;
- Ensuring that satisfactory arrangements for an annual audit have been made for each school district;
- Performing quality control reviews of independent auditors; and
- Compiling pertinent data and reporting annually to the California State Legislature and the California Department of Education.

² *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (K-12 Audit Guide) is developed 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, 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 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. A supplement to the audit guide may be suggested in the audit year, following the above process, to address issues resulting from new legislation in that year that changes the conditions of apportionment. The proposed content of the K-12 Audit Guide and any supplement to the K-12 Audit Guide shall be submitted by the Controller to the Education Audit Appeals Panel for review and possible amendment.

³ Compliance audits are conducted to determine whether categorical state and federal program funds are expended in accordance with the applicable program laws and regulations.

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 2002-03. State law requires 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 2003-04 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 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 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 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 State Superintendent of Schools.

Slight decrease in number of districts filing qualified or negative certifications

During FY 2003-04, a total of 49 of the 982 school districts and 58 county offices of education in the State filed a qualified certification, and 7 districts filed a negative certification for the first period interim report. Of the 56 districts, 35 filed a second-period qualified interim report, while 21 districts were able to take corrective action. However, an additional 9 districts filed negative second-period interim reports, for a total of 44 districts filing qualified or negative certification for the second-period interim report (Table 1). Thus, 64 districts reported qualified or negative classifications in at least one of the two periods (Appendix A), and 26 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:

- Deficit spending
- Inadequate reserves
- Special Education encroachment
- Declining enrollment
- Salary and benefit negotiations

Table 1

SECOND-PERIOD INTERIM REPORTING HISTORY					
	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04*</u>
Positive	1,027	1,023	1,003	978	996
Qualified	16	18	34	55	35
Negative	<u>3</u>	<u>4</u>	<u>6</u>	<u>8</u>	<u>9</u>
Totals	<u>1,046</u>	<u>1,045</u>	<u>1,043</u>	<u>1,041</u>	<u>1,040</u>
* Additional information regarding districts that filed qualified or negative interim reports during FY 2003-04 is provided in Appendices A and B.					

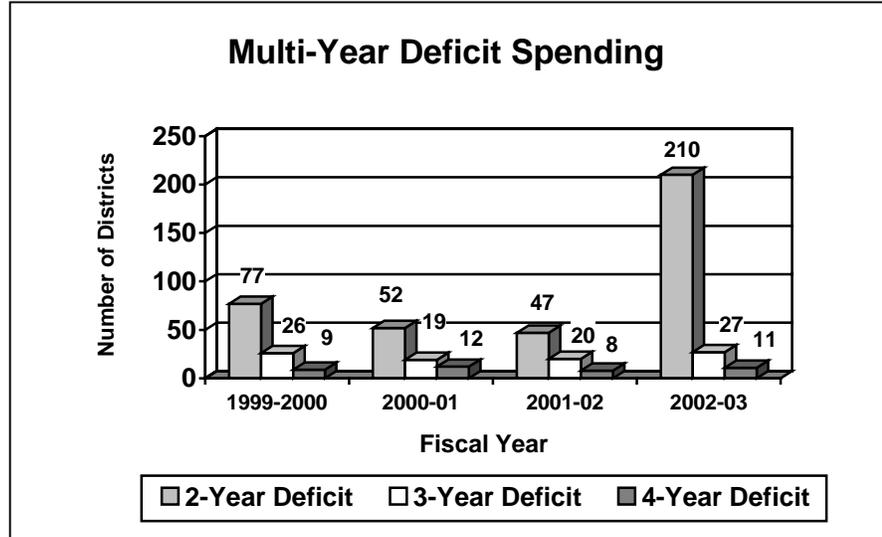
Deficit Spending

School district multi-year deficit spending increases

During FY 2002-03, single-year deficit spending decreased to 288 districts from 330 districts in the prior fiscal year.

However, the number of districts relying on multi-year deficit spending increased significantly (Table 2). The biggest increase was for two-year deficit spending (163 districts, or 347%). 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.

Table 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 an emergency apportionment loan through legislation. As a condition of acceptance of the loan, the superintendent will appoint an administrator or trustee to control, monitor, and review the operation of the district. The administrator or trustee will help the district to develop a five-year recovery plan.

School districts making timely payments

During the past 22 years, the State has granted more than \$174 million in emergency loans to school districts. Currently, four districts have outstanding loans (Table 3). West Contra Costa Unified School District and Emery Unified School District are meeting their repayment schedules.

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	\$17.7 million	02/01/2018
2001-02	Emery Unified	\$2.3 million	\$1.2 million	09/30/2021
2002-03	West Fresno Elementary	\$2.0 million	\$1.3 million	12/30/2013
2002-03	Oakland Unified	\$100.0 million	\$65.0 million	06/05/2023

Annual payments for Oakland Unified School District and West Fresno Elementary School District are due in June and December each year, respectively.

General Fund Revenues and Expenditures

FY 2002-03 marked the 12th consecutive year in which total school district general fund revenues exceeded expenditures (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%); in FY 1997-98, 685 (65%); in FY 1998-99, 732 (70%); in FY 1999-2000, 674 (64%); in FY 2000-01, 833 (80%); in FY 2001-02, 631 (61%); and in FY 2002-03, 496 (48%).

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 \$4.886 billion at the end of FY 2002-03, a decrease of \$816 million from the prior year's total of \$5.175 billion. 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								
	<u>1994-95</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>
Revenues	\$24.955	\$26.746	\$29.778	\$32.893	\$35.715	\$38.793	\$44.262	\$45.323	\$44.939
Expenditures	(24.729)	(26.026)	(29.040)	(32.017)	(34.675)	(37.690)	(42.804)	(44.342)	(44.774)
Surplus	<u>\$.226</u>	<u>\$.720</u>	<u>\$.738</u>	<u>\$.876</u>	<u>\$ 1.040</u>	<u>\$ 1.103</u>	<u>\$ 1.458</u>	<u>\$.981</u>	<u>\$.165</u>

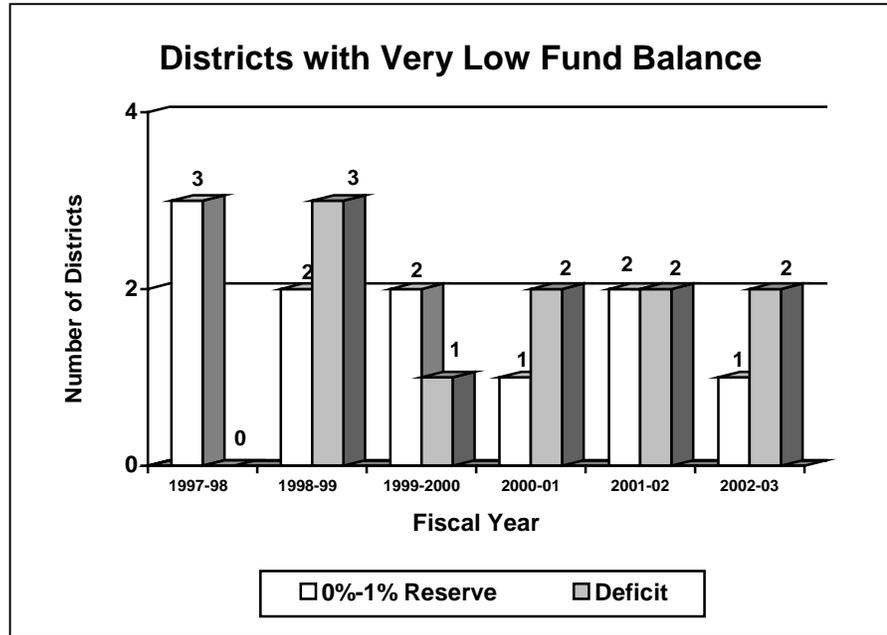
General Fund Balances

In their interim reports, school districts report to county offices of education on projected general fund balances and reserve levels for the current period and two subsequent years. 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 decreased by one

The number of school districts with low fund balance reserves or deficit balances decreased by one. At the end of FY 2002-03, three of 982 school districts and 58 county offices of education had low fund balance reserves (1% or less of general fund expenditures) (Table 5). Only one district had a very low fund balance reserve and two districts had negative fund balances. This is a continuing improvement over the last nine years in the number of districts with very low reserves.

Table 5



Long-Term Borrowing

School districts' long-term borrowing continuing to increase

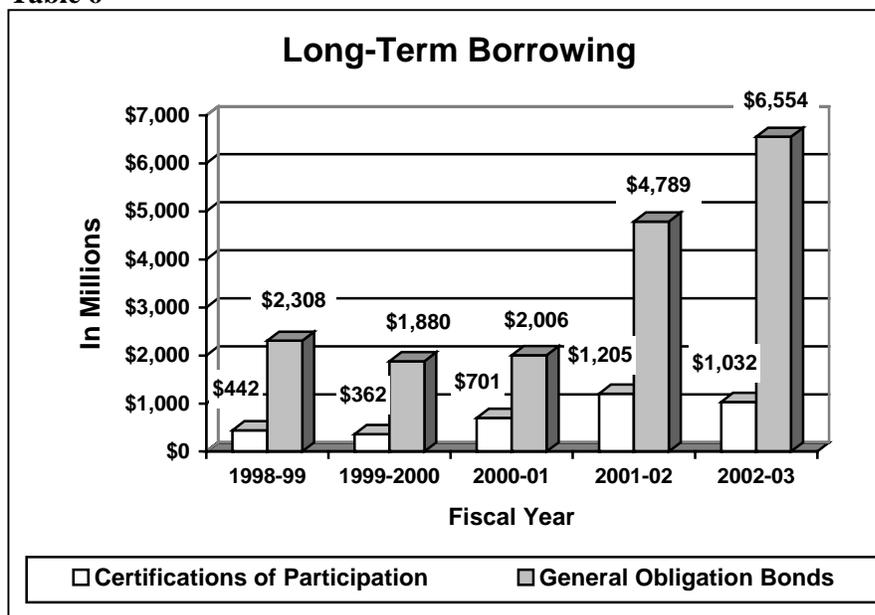
Generally, long-term debt is issued by districts to: fund the purchase, construction, or lease of buildings and equipment; refinance existing debt; or buy land for future use. In the past, it was not uncommon for financially troubled districts to issue long-term debt in order to finance current operations.

During FY 2003-04, school districts issued \$8.094 billion in long-term debt, an increase of \$1.84 billion over the prior year (29%). Long-term debt financing included:

- **Certificates of Participation (\$1.032 billion, or 13%)**—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 (\$6.554 billion, or 81%)**—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 Bond Instruments and Other Debt (\$508 million, or 6%)**—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 \$7.586 billion in certificates of participation and general obligation bonds during FY 2002-03, an increase of \$1.592 billion (27%) over the prior year's \$5.994 billion (Table 6).

Table 6



Financing through certificates of participation decreased by \$173 million, and financing through general obligation bonds increased by \$1.765 billion over the prior year. The certificates of participation were issued by 62 school districts during FY 2002-03.

There is a continuing trend for districts to make greater use of general obligation bonds than other types of long-term debt. Certificates of participation accounted for 13% of long-term borrowing in FY 2002-03, a 6% decrease from the previous year. In comparison, general obligation bonds accounted for 81% of long-term borrowing in FY 2002-03, an increase of 4% from FY 2001-02.

Lottery Revenues

Lottery revenues projected to increase

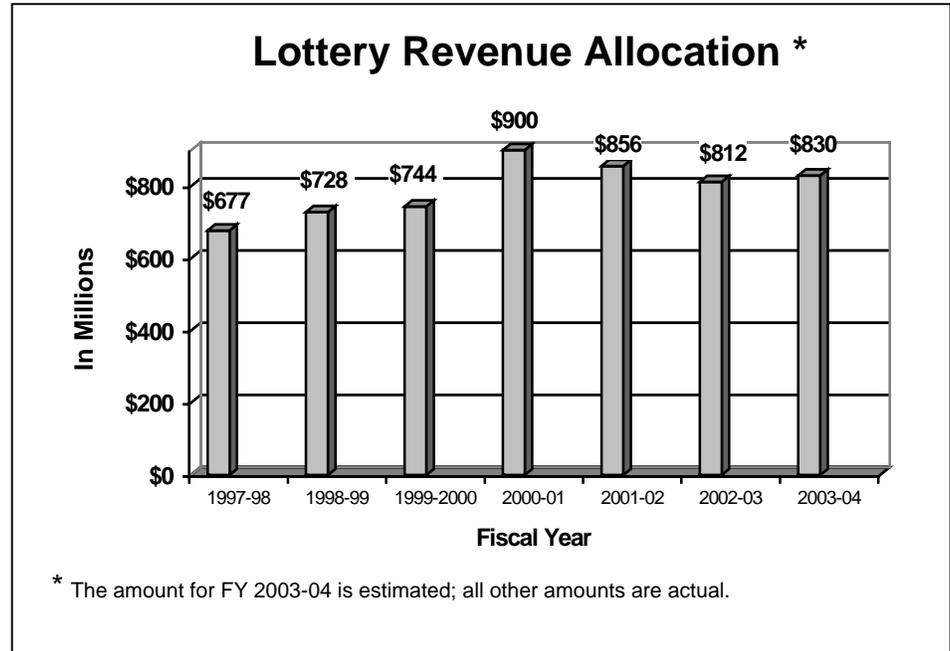
The allocation of lottery revenues to K-12 school districts is based on a percentage of total lottery sales for the year. Under state law, a minimum of 34% of lottery sales must be distributed to school districts, community colleges, and other educational agencies. The division of this 34% between K-12 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. Revenue for FY 2003-04 is projected to increase by 2.3% over FY 2002-03, up to \$830 million⁴—about \$126 per K-12 average daily attendance (Table 7).

⁴ The lottery revenue information is obtained from the California Department of Education, based on State Lottery projections.

Table 7



Program Compliance

Overview

The State Controller's Office also 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

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 2002-03 school district financial reports submitted by CPAs decreased from the prior year. There were 987 compliance findings in FY 2002-03, a 2.9% decrease from the 1,016 reported in FY 2001-02 (see Appendix D). The number of attendance accounting findings decreased by 2 (from 304 to 302, or 0.01%) from the prior year.

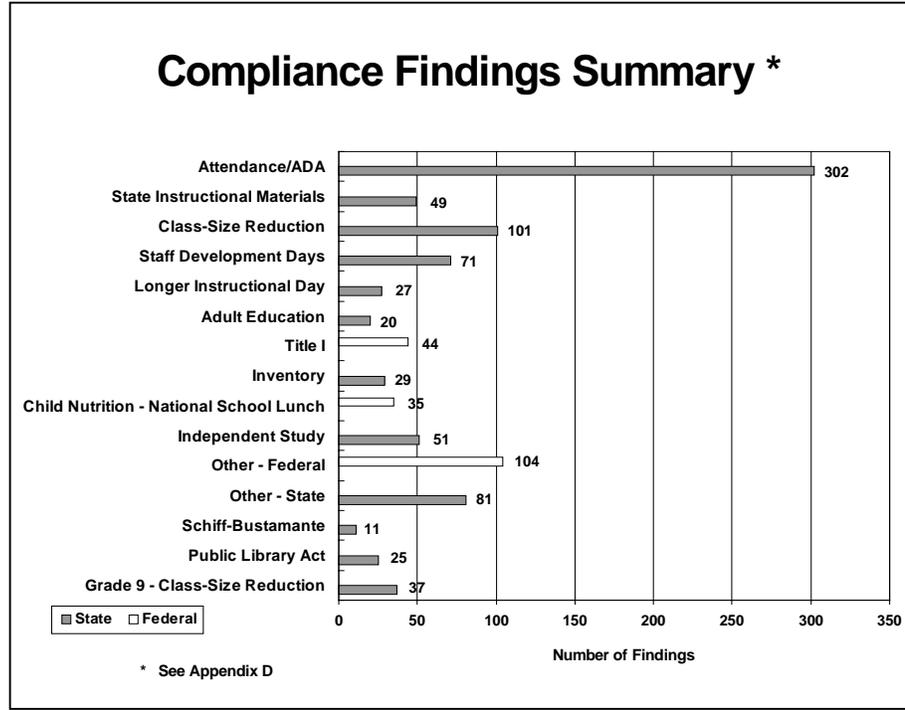
Some of the problems identified in the compliance findings may have a fiscal impact on district operations by causing a loss of state and federal funding. Of the 987 audit findings, 802 (81.3%) pertained to state programs and requirements, and 185 (18.7%) pertained to federal programs and requirements (see Table 8). Attendance-related findings accounted for 31% of compliance findings. The attendance findings were related to:

- Overstating ADA;
- Kindergarten continuation forms not being maintained and/or not in compliance with state requirements;
- Attendance reports being inaccurate or incomplete;
- Understating ADA;
- Not reconciling attendance reports to supporting documentation; and
- Not having attendance registers/scantrons signed by the teacher.

The FY 2002-03 school district audit reports also found that 11% of the 886 elementary school districts participating in the class-size reduction program did not fully comply with program reporting requirements. The audits identified 101 findings relating to the class-size reduction program. Most of the findings pertained to inaccuracies in reporting class-size totals.

The audits also disclosed 49 findings pertaining to the state instructional materials fund. Of these, 69.4% (34) pertained to public hearing notice requirements.

Table 8



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.

In FY 2003-04, the State Controller’s Office performed a build-upon audit of a school district’s Measure C Bond School Repair Program and performed reviews of the audit resolution processes of 13 county offices of education (COE).

The State Controller's Office audit and reviews disclosed the findings listed below.

Measure C Bond School Repair Program

The primary objectives of the audit were to determine the district's compliance with general provisions for the issuance of bonds; its management and monitoring of the bond program and bond project managers; proper accounting of bond interest and proceeds; eligibility of costs; and whether bond proceeds were expended in accordance with the provisions of the bond measure.

The audit disclosed that the district was not in compliance with all of the general provisions of the bond measure; did not properly manage and monitor the bond program; and did not properly account for and expend bond interest and proceeds.

Audit Resolution Process

Education Code Section 41020(n) requires the State Controller to annually select a sampling of county superintendents of schools to perform a follow-up review of the audit resolution process. The scope of the reviews was limited to determining whether each COE followed its formal audit resolution process; resolved all the audit findings; followed up on the district's corrective action plans; and notified the Superintendent of Public Instruction of its results.

The reviews disclosed that one COE did not follow its audit resolution process and thus was not in compliance with *Education Code* requirements.

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

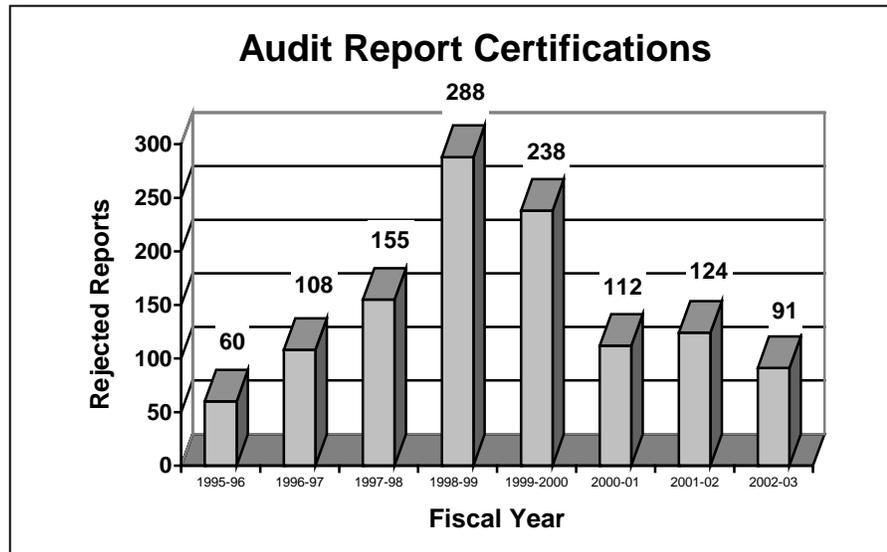
The State Controller’s Office determines whether audit reports conform to reporting provisions of the K-12 Audit Guide and provides notification to each school district, county office of education, independent auditor, and the State Superintendent of Public Instruction regarding the acceptance or rejection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

For FY 2002-03, 92% of the audit reports were accepted; the remaining 8% were rejected upon initial review. The rejected audit reports were subsequently accepted after the independent auditors made requested corrections. Rejection of an auditor’s report is accompanied by a penalty whereby the independent auditor does not receive the 10% service fee, which is 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.

Significant decrease in rejected audit reports

The number of rejected reports decreased by 33 from the prior year (from 124 to 91), a 27% decrease (Table 9). The rejections resulted mainly from errors in reporting state compliance requirements and quantifying the fiscal impact of state compliance findings.

Table 9

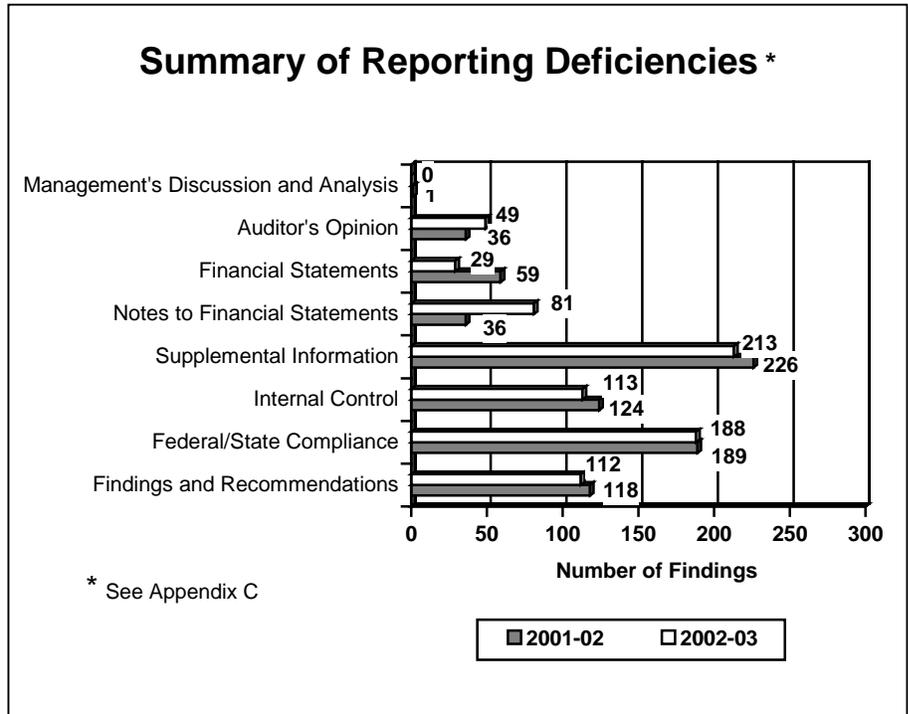


Reporting Deficiencies

Overall reporting deficiencies decreased

Upon initial review, the State Controller’s Office certified 955 (92%) of the 1,032 audit reports submitted by independent CPAs for FY 2002-03. The State Controller’s Office has not received eight audit reports.

Table 10



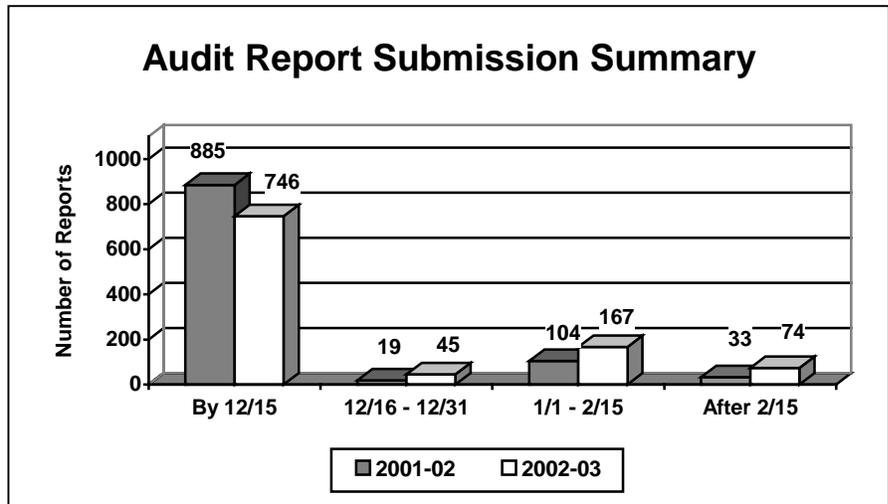
For FY 2002-03, there were 785 reporting deficiencies, a decrease of 4 from the prior year’s 789 (Table 10).

Timely Submissions

Annual reports not 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. Filing deadline extensions may be granted, but only under extraordinary circumstances.

Table 11



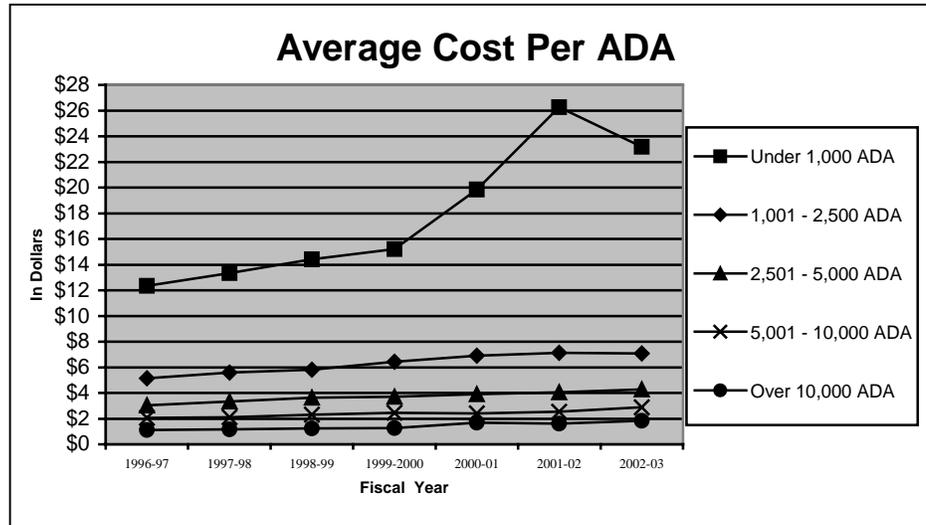
The number of annual audit reports submitted on time decreased from the previous year (Table 11). During FY 2002-03, 139 fewer reports were received by the December 15 deadline. This can be attributed to the implementation of GASB 34, for approximately 451 school districts. As a result, 184 school districts requested an extension of the filing deadline. The majority of annual reports—746 of 1,040, or 72% —were submitted by the deadline.

Average Audit Cost per ADA

Average audit costs increased slightly

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 were determined, per unit of ADA, for school districts’ annual audits. Audit costs for the FY 2002-03 audits totaled \$16.72 million, an increase of \$986,092, or 6.3%, over total audit costs of \$15.74 million for FY 2001-02.

Table 12



The average audit cost per ADA increased slightly over the prior year. The largest increase of 13.83% (\$0.35) was for districts with 5,001 to 10,000 ADA.

Quality Control Reviews

Under Chapter 1128, Statutes of 2002, the State Controller’s effort in quality control reviews (QCRs) was expanded to include local educational agencies (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. Chapter 1128 also requires the State Controller’s Office to publish a directory of CPAs whom it deems qualified to conduct audits of LEAs. This directory is published by December 31 of each year.

QCRs are necessary to ensure that the CPAs are adequately reviewing the LEAs, are following generally accepted audit standards and government audit standards, and are including findings regarding financial stability and compliance with state and federal laws in the annual independent auditor’s reports.

The general objective of the QCRs 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 Educational Agencies* (K-12 Audit Guide); and
- Office of Management and Budget (OMB) Circular A-133.

The State Controller's Office (SCO) 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 SCO's opinion would be that the independent auditor fully complied with auditing standards and federal and state requirements.
- If the audit was performed in accordance with the majority of the standards and requirements, the SCO's opinion would be that the independent auditor complied with the majority of auditing standards and federal and state requirements.
- If the audit was performed in accordance with some elements of the standards and requirements, but the majority of standards and requirements have not been met, the SCO's opinion would be that the independent auditor complied with some elements of the standards and requirements; however, the majority of auditing standards and federal and state requirements had not been met.
- If the audit was not performed in accordance with the standards and requirements, the SCO's opinion would be that the independent auditor did not comply with auditing standards and federal and state requirements. This opinion will result in a referral of the independent auditor to the California State Board of Accountancy.

The SCO issued 14 final reports and four draft reports during FY 2003-04. In addition, 16 QCRs are in process. Of the 18 reports:

- 5 independent auditors fully complied with auditing standards and federal and state requirements;
- 7 independent auditors complied with the majority of auditing standards and federal and state requirements; and
- 6 independent auditors complied with some elements of the standards and requirements; however, the majority of auditing standards and federal and state requirements had not been met.

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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	2002-03 Average Daily Attendance	2003-04 Interim Report		2002-03 Interim Report Second
				First	Second	
Alameda County:						
Berkeley Unified	1	1	1	N	N	N
Emery Unified	Yes	Yes	829	Q	Q	N
Hayward Unified	No	Yes ³	27,020	N	N	Q
Livermore Valley Joint Unified	Yes	Yes ³	14,058	N	N	Q
Oakland Unified	Yes	Yes	51,244	N	N	N
Amador County:						
Amador County Office	No	No	259	Q	Q	Q
Amador County Unified	No	No	4,413	Q	Q	Q
Contra Costa County:						
Acalanes Union High	No	No	6,065	Q	P	P
Antioch Unified	No	No	19,827	Q	N	Q
John Swett Unified	No	No	1,738	Q	Q	Q
Martinez Unified	No	No	5,249	Q	Q	Q
Mt. Diablo Unified	No	No	37,431	Q	P	P
El Dorado County:						
Lake Tahoe Unified	No	No	4,995	Q	P	P
Fresno County:						
West Fresno Elementary	Yes	Yes ³	927	N	N	N
Inyo County:						
Big Pine Unified	No	No	212	P	Q	P
Kern County:						
Buttonwillow Union Elementary	No	No	372	Q	Q	P
Kings County:						
Lakeside Union Elementary	No	No	417	Q	Q	P
Lake County:						
Upper Lake Union High	No	No	352	Q	Q	Q
Los Angeles County:						
El Rancho Unified	No	Yes ³	12,901	Q	Q	P
Long Beach Unified	No	No	93,715	Q	P	P
Pomona Unified	No	No	38,426	Q	P	P
Torrance Unified	No	No	28,386	Q	P	P
Westside Union Elementary	No	No	6,803	Q ²	Q	P
William S. Hart Union High	No	No	19,938	Q	P	P
Madera County:						
Golden Valley Unified	No	No	1,074	Q	Q	P
Mendocino County:						
Potter Valley Community Unified	No	No	285	Q	Q	P
Monterey County:						
Greenfield Union Elementary	No	Yes ³	2,451	Q	N	N
Salinas City Elementary	No	No	8,475	P	Q	P
Spreckles Union	No	Yes ³	899	Q	Q	Q
Orange County:						
Santa Ana Unified	No	Yes ³	57,637	Q ²	Q	P

Appendix A (continued)

County School District	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2002-03 Average Daily Attendance	2003-04 Interim Report		2002-03 Interim Report
				First	Second	Second
Placer County:						
Western Placer Unified	No	No	3,680	Q ²	P	P
Riverside County:						
Palm Springs Unified	No	No	20,972	Q	P	P
San Benito County:						
Hollister Elementary	No	No	5,936	P	Q	P
San Bernardino County:						
Fontana Unified	No	No	37,904	Q	P	P
Rim of the World Unified	No	No	5,368	P	Q	P
San Joaquin County:						
Ripon Unified	No	No	2,652	Q	P	P
San Mateo County:						
Jefferson Union High	No	No	5,834	Q	Q	P
La Honda-Pescadero Unified	No	No	344	P	Q ²	P
San Bruno Park	No	Yes ³	2,673	Q	P	P
Santa Clara County:						
Berryessa Elementary	No	No	8,261	Q	P	P
Orchard Elementary	No	Yes ³	775	Q	Q	N
Sunnyvale Elementary	No	No	5,739	Q	P	P
Santa Cruz County:						
Santa Cruz City	No	No	8,007	Q	Q	Q
Scotts Valley Unified	Yes	Yes ³	2,587	Q	N	Q
Shasta County:						
Gateway Unified	No	No	3,363	Q	P	Q
Sierra County:						
Sierra-Plumas Joint Unified	Yes	Yes ³	639	Q	Q	N
Siskiyou County:						
Weed Union Elementary	No	No	383	P	Q	P
Solano County:						
Benicia Unified	No	Yes ³	5,257	Q	Q	N
Vallejo City Unified	Yes	Yes ³	19,148	N	N	Q
Sonoma County:						
Cloverdale Unified	No	Yes ³	1,511	Q	Q	Q
Geyserville Unified	No	Yes ³	272	Q	Q	Q
Harmony Union Elementary	No	Yes ³	372	Q	P	Q
Healdsburg Unified	No	No	2,605	Q	P	P
Sebastopol Union Elementary	No	No	1,122	P	Q	P
Sonoma Valley Unified	No	No	4,613	P	Q	P
Wilmar Union Elementary	No	No	211	Q	Q	P
Stanislaus County:						
Oakdale Joint Unified	No	No	4,578	Q	P	P
Stanislaus Union	No	No	3,157	Q	P	P
Tehama County:						
Corning Union Elementary	No	Yes ³	1,865	N	Q	P
Trinity County:						
Trinity Union High	No	No	521	Q	Q	P

Appendix A (continued)

County School District	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2002-03 Average Daily Attendance	2003-04 Interim Report		2002-03 Interim Report Second
				First	Second	
Tuolumne County:						
Summerville Elementary	No	No	644	Q ²	P	P
Twain Harte-Long Barn Union	No	No	549	Q ²	Q	Q
Ventura County:						
Fillmore Unified	No	No	3,725	P	Q	P
Oxnard Elementary	No	No	15,757	Q	P	P
Yuba County						
Marysville Joint Unified	No	No	9,321	Q	Q	Q

Legend: P = Positive Q = Qualified N = Negative

¹ Annual audit report has not been submitted to the State Controller's Office; therefore, the information was not available.

² County office of education changed certification from positive to qualified.

³ Disclosed in the Schedule of Findings and Questioned Costs.

Appendix B— School Districts Filing Qualified or Negative Interim Reports

County School District	1 st /2 nd Certification	Deficit Spending	Inadequate Reserves	Special Education Encroachment	Governor's FY 2004-05 Budget Proposal	Analysis of Key Indicators for Financial Difficulties					
						Declining Enrollment	Prior Audit Adjustments	Salary and Benefit Negotiations	Enrollment Growth Projection	Cafeteria Fund	Retiree Benefits
Alameda County:											
Berkeley Unified	N/N	✓	✓	✓	✓	✓		✓			✓
Emery Unified	Q/Q	✓	✓			✓		✓	✓		
Hayward Unified	N/N	✓	✓	✓	✓						
Livermore Valley Joint Unified	N/N	✓	✓	✓				✓			
Oakland Unified	N/N	✓	✓			✓					✓
Amador County:											
Amador COE	Q/Q	✓	✓								
Amador County Unified	Q/Q	✓	✓			✓					
Contra Costa County:											
Acalanes Union High	Q/P	✓									
Antioch Unified	Q/N	✓	✓					✓			
John Swett Unified	Q/Q	✓	✓			✓		✓			
Martinez Unified	Q/Q	✓	✓					✓			
Mt. Diablo Unified	Q/P	✓	✓								
El Dorado County:											
Lake Tahoe Unified	Q/P	✓				✓					
Fresno County:											
West Fresno Elementary	N/N	✓	✓								
Inyo County:											
Big Pine Unified	P/Q	✓						✓			
Kern County:											
Buttonwillow Union Elementary	Q/Q	✓						✓			
Kings County:											
Lakeside Union Elementary	Q/Q	✓	✓			✓					
Lake County:											
Upper Lake Union High	Q/Q	✓	✓								

Appendix B (continued)

County School District	1 st /2 nd Certification	Deficit Spending	Inadequate Reserves	Special Education Encroachment	Governor's FY 2004-05 Budget Proposal	Analysis of Key Indicators for Financial Difficulties					
						Declining Enrollment	Prior Audit Adjustments	Salary and Benefit Negotiations	Enrollment Growth Projection	Cafeteria Fund	Retiree Benefits
Los Angeles County:											
El Rancho Unified	Q/Q	✓	✓					✓			
Long Beach Unified	Q/P	✓	✓					✓			✓
Pomona Unified	Q/P	✓	✓								
Torrance Unified	Q/P	✓	✓				✓	✓			
Westside Union Unified	Q/Q	✓	✓					✓			
William S. Hart Union High	Q/P	✓	✓					✓			
Madera County:											
Golden Valley Unified	Q/Q	✓		✓							
Mendocino County:											
Potter Valley Unified	Q/Q	✓			✓	✓					
Monterey County:											
Greenfield Union Elementary	Q/N	✓	✓	✓							✓
Salinas City Elementary	P/Q	✓	✓			✓					
Spreckles Union	Q/Q	✓	✓		✓						
Orange County:											
Santa Ana Unified	Q/Q	✓	✓			✓		✓			
Placer County:											
Western Unified	Q/P	✓					✓	✓			
Riverside County:											
Palm Springs Unified	Q/P	✓	✓								
San Benito County:											
Hollister Elementary	P/Q	✓						✓			
San Bernardino County:											
Fontana Unified	Q/P	✓						✓			
Rim of the World Unified	P/Q	✓				✓		✓			
San Joaquin County:											
Ripon Unified	Q/P	✓	✓								
San Mateo County:											
Jefferson Union High	Q/Q	✓	✓								
La Honda-Pescadero Unified	P/Q	✓		✓			✓	✓			
San Bruno Park	Q/P		✓					✓		✓	

Appendix B (continued)

County School District	1 st /2 nd Certification	Deficit Spending	Inadequate Reserves	Special Education Encroachment	Governor's FY 2004-05 Budget Proposal	Analysis of Key Indicators for Financial Difficulties					
						Declining Enrollment	Prior Audit Adjustments	Salary and Benefit Negotiations	Enrollment Growth Projection	Cafeteria Fund	Retiree Benefits
Santa Clara County:											
Berryessa Elementary	Q/P	✓	✓								
Orchard Elementary	Q/Q	✓	✓								
Sunnyvale Elementary	Q/P	✓	✓								
Santa Cruz County:											
Santa Cruz City	Q/Q	✓	✓								
Scotts Valley Unified	Q/N	✓	✓								
Shasta County:											
Gateway Unified	Q/P	✓						✓			
Sierra County:											
Sierra-Plumas Joint Unified	Q/Q	✓	✓								
Siskiyou County:											
Weed Union Elementary	P/Q	✓	✓								
Solano County:											
Benicia Unified	Q/Q	✓	✓					✓			
Vallejo City Unified	N/N	✓	✓					✓			
Sonoma County:											
Cloverdale Unified	Q/Q	✓	✓					✓			
Geyserville Unified	Q/Q	✓	✓			✓					
Harmony Union Elementary	Q/P	✓	✓			✓					
Healdsburg Unified	Q/P	✓	✓			✓					
Sebastopol Union Elementary	P/Q	✓				✓		✓			
Sonoma Valley Unified	P/Q	✓				✓					
Wilmar Union Elementary	Q/Q	✓		✓							
Stanislaus County:											
Oakdale Joint Unified	Q/P	✓							✓		
Stanislaus Union	Q/P	✓							✓		
Tehama County:											
Corning Union Elementary	N/Q	✓	✓								✓
Trinity County:											
Trinity Union	Q/Q		✓		✓	✓		✓			

Appendix B (continued)

County School District	1 st /2 nd Certification	Deficit Spending	Inadequate Reserves	Special Education Encroachment	Governor's FY 2004-05 Budget Proposal	Analysis of Key Indicators for Financial Difficulties					
						Declining Enrollment	Prior Audit Adjustments	Salary and Benefit Negotiations	Enrollment Growth Projection	Cafeteria Fund	Retiree Benefits
Tuolumne County:											
Summerville Elementary	Q/P	✓									
Twain Harte-Long Barn Union	Q/Q	✓	✓								
Ventura County:											
Fillmore Unified	P/Q	✓			✓						
Oxnard Elementary	Q/P	✓			✓						
Yuba County:											
Marysville Joint Unified	Q/Q		✓		✓						

Legend: P=Positive Q=Qualified N=Negative

Appendix C— Summary of Audit Report Problems

Description	Number of Findings	
	2001-02	2002-03
<u>Management’s Discussion and Analysis</u>		
The Management’s Discussion and Analysis was not included in the audit report.	1	0
	<u>1</u>	<u>0</u>
<u>Auditor’s Opinion</u>		
The auditor’s qualified opinion due to departure from generally accepted accounting principles (GAAP) did not provide substantive reasons for departure and/or did not disclose possible effects on the financial statements.	14	37
The auditor’s opinion did not state that the financial statements conformed with accounting principles generally accepted in the USA.	7	2
The auditor’s report did not state that the audit was conducted in accordance with auditing standards generally accepted in the USA and government auditing standards (GAGAS).	3	0
Reference to a separate report on compliance and on internal control over financial reporting was not included.	0	1
The auditor’s report did not include a manual or printed signature of the auditor’s firm and the date of the report.	1	0
The auditor’s qualified opinion due to a scope limitation did not include an explanatory paragraph explaining the limitation and/or did not disclose the possible effects on the financial statements.	1	2
The Independent Auditor’s Report did not contain an adverse opinion because the entity did not implement GASB Statement 34 as required.	0	1
Substantive reasons for either an adverse opinion or a disclaimer of opinion were not adequately disclosed.	1	0
The auditor’s report did not reference the required supplementary information (RSI).	4	1
The auditor’s report did not state that the auditor applied limited procedures to the RSI.	3	5
The auditor’s report did not identify the supplementary information, including the Schedule of Expenditures of Federal Awards.	2	0
	<u>36</u>	<u>49</u>
<u>Financial Statements</u>		
The Combined Balance Sheet was not properly presented.	1	0
The fund balance was not properly reserved for material nonexpendable assets.	3	3
Long-term debt was improperly reported and presented.	40	0
Interfund receivables did not equal interfund payables.	1	2
Reserves were not appropriate, and their nature and purpose were not clear.	3	7
The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances was not properly presented.	7	0
The Statement of Changes in Fiduciary Net Assets–Fiduciary Funds was not properly presented.	4	7

Appendix C (continued)

Description	Number of Findings	
	2001-02	2002-03
<u>Financial Statements (cont.)</u>		
The Statement of Activities was not properly presented.	0	1
The Statement of Fund Net Assets–Proprietary Funds was not properly presented.	0	3
The Statement of Revenues, Expenses, and Changes in Fund Net Assets–Proprietary Funds was not properly presented.	0	3
The Statement of Cash Flows–Proprietary Funds was not properly presented.	0	2
The Statement of Fiduciary Net Assets–Fiduciary Funds was not properly presented.	0	1
	<u>59</u>	<u>29</u>
<u>Notes to the Financial Statements</u>		
All activities, organizations, or functions of government related to the entity were not identified.	0	1
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	1
The notes did not adequately disclose pension obligations.	1	0
The notes did not include full disclosure with respect to long-term debt.	11	3
The notes did not adequately disclose prior-period restatements or adjustments.	2	1
The notes did not adequately describe the criteria used in determining whether other entities should be considered component units of the reporting entity.	2	5
The notes did not include adequate disclosure with respect to detail of debt service requirements.	15	50
The notes did not include adequate disclosure of capital assets and depreciation.	0	20
	<u>36</u>	<u>81</u>
<u>Supplemental Information Section</u>		
The Schedule of Expenditures of Federal Awards did not include the required federal catalog numbers, total expenditures for each federal program were not listed, or the schedule did not include all the required programs. (For FY 2002-03, the SCO reviewed additional attributes and identified:		
<ul style="list-style-type: none"> • Individual federal programs by federal agency and, for a cluster of programs, individual programs within the cluster. • For federal awards received as a subrecipient, the name of the pass-through entity and the identifying number assigned by the pass-through entity.) 	182	196
The notes did not disclose the district’s participation in the Early Retirement Incentive program.	1	3
The reconciliation of annual financial and budget report with audited financial statements was not included.	0	5
The Schedule of Instructional Time was not included or the schedule was deficient.	38	8

Appendix C (continued)

Description	Number of Findings	
	2001-02	2002-03
<u>Supplemental Information Section</u> (cont.)		
The separate budgetary comparison schedule for the general fund and each major special revenue fund was not properly presented.	1	0
The Schedule of Average Daily Attendance was not included.	4	1
	<u>226</u>	<u>213</u>
<u>Internal Control Section</u>		
The Report on Compliance and on Internal Control over Financial Reporting did not reference the financial statements audited.	59	34
The Report on Compliance and on Internal Control over Financial Reporting was deficient.	18	11
The Auditor's Report on Compliance and Internal Control in accordance with Government Auditing Standards was not included.	1	0
The Report on Compliance and on Internal Control over Financial Reporting did not include a statement that the audit was conducted in accordance with GAGAS and auditing standards generally accepted in the USA.	1	3
The Independent Auditor's Report on Compliance and Internal Control over Financial Reporting did not include a statement regarding legal restrictions on report distribution.	45	63
The Report on Compliance and on Internal Control over Financial Reporting did not include a statement regarding test results.	0	2
	<u>124</u>	<u>113</u>
<u>Federal and State Compliance Section</u>		
The Auditor's Report on State Compliance was deficient.	14	35
The Auditor's Report on State Compliance did not include a statement regarding legal restrictions on report distribution.	132	94
The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 (Compliance section) was deficient.	2	16
The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 (Internal Control over Compliance section) was deficient.	4	3
The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 was not included.	2	1
The Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 did not include a statement regarding legal restrictions on report distribution.	35	39
	<u>189</u>	<u>188</u>

Appendix C (continued)

Description	Number of Findings	
	2001-02	2002-03
<u>Findings and Recommendations Section</u>		
There was no report on the auditee’s corrective action plan to eliminate noncompliance included in the report.	8	8
The audit findings were not coded with the correct five-digit number.	7	16
Noncompliance was reported, but sufficient data was not presented.	27	21
The Schedule of Instructional Time indicated noncompliance with the requirements, but the finding was not included in the report.	1	11
The fiscal impact resulting from noncompliance was not quantified.	38	30
Available reserves were below the minimum required; and management’s plans were not addressed and/or a going concern note was not included.	9	12
The summary of the auditor’s results was not included.	1	0
Major federal programs were not identified.	2	1
The summary schedule of prior audit findings was not included.	3	0
Sufficient information for judging the frequency and consequences of noncompliance was not included.	21	12
Questioned or unsupported costs material to the financial statements were not properly disclosed.	<u>1</u>	<u>1</u>
	<u>118</u>	<u>112</u>
Total number of findings	<u><u>789</u></u>	<u><u>785</u></u>

Appendix D— Summary of Audit Report Compliance Findings

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE		
Adult Education	Expenditures overstated	1
	Attendance accounting deficiencies	10
	Attendance report does not reconcile	4
	Other findings	3
Child Development	Lack of documentation/records	1
	Reported expenditures erroneous/inaccurate	1
	Reported revenue erroneous	1
	Financial report inaccurate	2
	Other finding	1
Longer Instructional Day	Instructional time requirements not met	19
	Other findings	8
Continuation Education	Other findings	2
	Attendance accounting deficiency	18
Independent Study	Other findings	16
	Contract did not include all required elements	11
	Work samples not retained	3
	Attendance overstated	21
Summer School	Attendance accounting deficiencies	10
State Instructional Materials Fund	Expenditures not allowable	5
	Public hearing on instructional materials held after June 30	17
	Ten-day notice of public hearing not posted at three public locations in district	17
	Other findings	7
	Adopted/nonadopted requirements not met.	1
Attendance Requirements	Interest earned on allowance not allocated to the program	2
	Excused absences—problems with verification procedures/documentation	8
	Attendance accounting system not approved by CDE	4
	Attendance registers/scantrons not signed by teacher	14
	Attendance report does not reconcile to supporting documentation	19
	Attendance report inaccurate/incomplete	47
	Lack of documentation/records	10
	ADA overstated by 0-5 ADA	41
	ADA overstated by 5-10 ADA	8
	ADA overstated by 10-20 ADA	6
	ADA overstated by more than 20 ADA	7
	Kindergarten continuation forms not maintained and/or not in compliance with state requirements	50
	Absences claimed for apportionment	20
	Teacher(s) did not possess a valid certification document	7

Appendix D (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
Attendance Requirements (continued)	Incorrect reporting of attendance for staff development days	14
	ADA understated by 0-5 ADA	16
	ADA understated by 5-10 ADA	3
	ADA understated by 11-20 ADA	3
	Student not eligible for admittance to kindergarten	2
	Enrollment not reconciled to monthly attendance reports	5
	Other findings	18
Inventory of Equipment	Inventory of equipment not maintained	29
Gann Limit Calculation	Appropriation limit calculation deficiency	3
	Other findings	2
Class-Size Reduction	Number of classes and pupils reported on Form J-7 CSR understated	39
	Number of classes and pupils reported on Form J-7 CSR overstated	46
	Positive daily enrollment records/counts not maintained	3
	Other findings	12
	Teacher training not completed/documented	1
Grade 9 Class Size Reduction	Number of classes and pupils reported on Form J-9 MH-A understated	17
	Number of classes and pupils reported on Form J-9 MH-A overstated	14
	Average pupil enrollment count not used	1
	Other findings	5
Schiff-Bustamante	Expenditures not allowable	11
Digital High School	Local match requirement not met	2
	Other findings	6
Deferred Maintenance	Expenditures not allowable	1
	Other findings	2
Staff Development Days	Applications for funding overstated	50
	Lack of documentation/records	2
	Other findings	19
Other State Programs	Financial report inaccurate/not complete/multi-funded positions not supported	1
	Financial report/claim not filed/filed late	1
	Lack of documentation/records	1
	Expenditures overstated	1
	Other findings	7
Regional Occupational Center/Program	Attendance accounting deficiencies	3
	Attendance report does not reconcile to supporting documentation	1

Appendix D (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
Administrator-to-Teacher Ratio	District has not performed ratio calculation	8
County Community Schools	Type C Pupils classified incorrectly for attendance purposes	1
Community Day Schools	Attendance report inaccurate	3
California Public Library Act	Expenditures not allowable	24
	Other findings	1
Special Education	Expenditures understated	1
	Other findings	<u>1</u>
Total state findings		<u>802</u>
FEDERAL		
Special Education	Reporting	1
	Equipment and real property management	1
	Allowable costs/cost principles	10
	Special tests and provisions	3
Federal Programs	Noncompliance with requirements for allowable costs/cost principles	17
	Noncompliance with requirements for equipment and real property management	9
	Multifunded position not supported by time distribution records	36
	Noncompliance with requirements for procurement/suspension/debarment	1
	Other findings	5
School Breakfast Program	Eligibility of participants	1
	Expenditures understated	1
National School Lunch	Eligibility of participants	7
	Financial report inaccurate	4
	Expenditures overstated	1
	Expenditures understated	4
	Reporting requirements	3
	Special tests and provisions	7
	Reported revenue erroneous	1
	Activities allowed or unallowed	6
	Reported expenditures do not reconcile to general ledger	1
	Other findings	1
Adult Education	Allowable costs/cost principles	2

Appendix D (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
FEDERAL (continued)		
Title I— Grants to LEAs	Matching level of effort, earmarking	2
	Eligibility	1
	Equipment and real property management	2
	Period of availability of federal funds	6
	Expenditures overstated	2
	Allowable costs/cost principles	22
	Lack of documentation/records	1
	Activities allowed or unallowed	1
	Other findings	7
Bilingual Education	Expenditures overstated	1
Child Care Food	Activities allowed or unallowed	1
Vocational Education	Allowable costs/cost principles	1
Drug-Free Schools	Period of availability of federal funds	1
	Activities allowed or unallowed	1
	Allowable costs/cost principles	1
Other Federal	Reporting requirements	1
	Allowable costs/cost principles	7
	Equipment and real property management	1
	Lack of documentation/records	1
	Procurement and suspension debarment	1
	Other findings	<u>2</u>
Total federal findings		<u>185</u>
Total state and federal findings		<u>987</u>

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