

ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS

Report to the Superintendent of Public Instruction

For the Period of July 1, 2008, through June 30, 2009



JOHN CHIANG
California State Controller

June 2010



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California State Controller

June 30, 2010

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

Dear Superintendent O'Connell:

I am pleased to announce the completion of the Annual Financial Report of California K-12 Schools for 2009. 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) 2008-09, unless otherwise specified. For FY 2008-09, there were a total of 1,771 local education agencies (LEAs), including 967 school districts, 58 county offices of education, and 746 charter schools.

Overall, for FY 2008-09, California's local education agencies received more revenues than they expended (a net difference of \$2.315 billion). This increase in revenues was primarily attributable to the American Recovery and Reinvestment Act of 2009 funds received late in the fiscal year. However, the number of LEAs engaged in multi-year deficit spending increased from 39 to 98. The number of districts and county offices of education filing negative or qualified first- or second-interim certifications for FY 2009-10 increased from 131 to 197, primarily due to deficit spending, projected revenue limit changes, projected operating expenditure changes, contribution changes, and inadequate reserves.

Of California's 458 charter schools that submit separate audit reports, 30 (6.6%) currently show signs of possible financial instability. Of these 30 charter schools, 26 reported deficit fund balances for FY 2008-09, and the remaining four had fund balance reserves of less than 1% of general fund expenditures.

State and federal compliance findings noted in the independent auditors' reports of school districts and county offices of education decreased from the prior year. Auditors reported 675 compliance findings in FY 2008-09, a 28.7% decrease from the 946 reported in FY 2007-08. Moreover, 22.4% 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 127 findings pertaining to the After School Education and Safety Program.

The Honorable Jack O'Connell
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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* 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) 2008-09. Additional data was taken from interim financial report certifications submitted by LEAs during FY 2009-10. 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 filing negative or qualified certifications during at least one of the two reporting periods increased from 131 in FY 2008-09 to 197 in FY 2009-10. In the second reporting period of FY 2009-10, 88 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.
- The number of LEAs engaged in multi-year deficit spending increased from 39 to 98. 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.
- Thirty charter schools had deficient fund balances. Of these, 26 had deficit fund balances and the remaining four had fund balance reserves of less than 1% of the general fund expenditures.
- Long-term borrowing increased by \$653 million to a total of \$5.643 billion, a 13.09% increase from the \$4.989 billion reported in the prior year. Generally, LEAs issue long-term debt to fund capital improvements, refinance existing debt, or buy land for future use.

- The number of state and federal compliance findings contained in the audit reports of LEAs decreased from the prior year. Approximately 22.4% of the compliance findings for FY 2008-09 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.
- FY 2008-09 was the first year in which LEAs received American Recovery and Reinvestment Act of 2009 (ARRA) federal funds. ARRA expenditures represented 8.16% of total federal expenditures reported.
- The LEAs' annual audit reports disclosed 127 audit findings pertaining to the After School Education and Safety Program.
- The number of rejected reports decreased by 40 from the prior year, from 377 to 337. Approximately 114 of the 337 reports rejected, or 34%, were charter school reports.

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 is also 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 K-12 Audit Guide is also known as the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2008-09*, 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 guide¹ that prescribes financial statements and other information that should be included in each local education agency's audit report and that 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;²
- Tracking notifications from the school districts that identify substantial fiscal problems at interim reporting periods;

¹ *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.

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

- 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; and
- 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 (LEAs) are presented in this section of the report. Data comes from interim financial report certifications submitted by school districts during Fiscal Year (FY) 2009-10.

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.

Increase in the number of districts that filed qualified or negative certifications

During FY 2009-10, 114 of the 1,025 LEAs in the state filed a qualified certification, and 12 LEAs filed a negative certification for the first-period interim report. Of these 126 LEAs, 88 filed a second-period qualified interim report, 13 filed a second-period negative report, and 24 LEAs were able to take corrective action. One LEA did not submit its second-period report. However, an additional 71 LEAs filed qualified or negative second-period interim reports, for a total of 172 qualified or negative certifications for the second-period interim report (Figure 1). Thus, 197 LEAs reported qualified or negative certifications for at least one of the two periods (Appendix A), and 94 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: 185 LEAs (93.9%)
- 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): 179 LEAs (90.9%)
- Other Expenditures (projected operating expenditure changes): 163 LEAs (82.7%)
- 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 by more than \$20,000 and more than 5% for any of the current or two subsequent fiscal years): 169 LEAs (85.8%)
- Reserves (inadequate reserves): 152 LEAs (77.2%)

An analysis of the 71 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

SECOND-PERIOD INTERIM REPORTING HISTORY					
	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10*</u>
Positive	1,003	1,010	914	926	853
Qualified	29	19	108	86	159
Negative	4	5	13	19	13
Totals	<u>1,036</u>	<u>1,034</u>	<u>1,035</u>	<u>1,031</u>	<u>1,025</u>

* Additional information regarding local education agencies that filed qualified or negative interim reports during FY 2009-10 is provided in Appendices A and B.

Deficit Spending

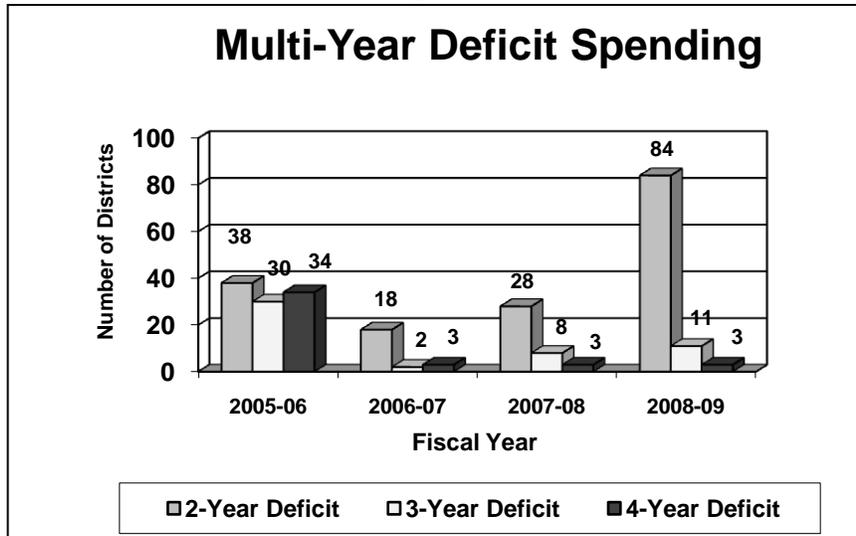
During FY 2008-09, single-year deficit spending decreased to 96 LEAs from 394 LEAs in the prior fiscal year. Although the single-year deficient spending has decreased, with the State’s current economic

condition, LEAs continue to face fiscal challenges as demonstrated by the multi-year deficit spending patterns. The decrease in single-year deficit spending is primarily attributable to the influx of ARRA funds late in FY 2008-09.

LEA multi-year deficit spending increased

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 28 years, the State has granted more than \$226 million in emergency apportionment loans to school districts from the general fund. 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 2009-10, six districts had general fund loan balances in amounts ranging from \$0.5 million to \$30.5 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 official payment schedule for the King City Joint Union High School District has not been determined.

Annual payments on the initial emergency loans for the Oakland Unified School District, Emery Unified School District, and West Fresno Elementary School District are due in June, September, and December, respectively. Vallejo City Unified School District annual payments are due in June.

Figure 3

DISTRICTS WITH OUTSTANDING LOANS (in millions)							
Fiscal Year	School District	Initial Loan			Lease Revenue Bonds ¹		
		Amount of Loan	Out-standing Balance	Final Repay-ment Date	Amount Issued	Out-standing Balance	Final Repay-ment Date
1990-91	West Contra Costa Unified	\$28.5	—	12/08/2005	\$15.7	\$12.5	08/15/2018
2001-02	Emery Unified	\$2.3	\$0.09	09/30/2021	—	—	
2002-03	West Fresno Elementary	\$2.0	\$0.5	12/30/2013	—	—	
2002-03	Oakland Unified	\$100.0	\$30.5	06/05/2026	\$59.6 ²	\$56.5	08/15/2023
2003-04	Vallejo City Unified	\$60.0	\$30.0	06/24/2024	\$21.2	\$18.6	08/15/2024
2009-10	King City Joint Union High ³	\$2.0	\$2.0	Not Determined	\$14.4	\$14.4	08/15/2029

¹ The lease revenue bond information was obtained from the California Infrastructure and Economic Development Bank.

² Series 2008 Bonds were issued in April 2008.

³ Revenue Bonds were issued in April 2010.

General Fund Revenues and Expenditures

For FY 2008-09, school district general fund revenues exceeded expenditures by \$1.768 billion (Figure 4).

Figure 4

	SCHOOL DISTRICT GENERAL FUND REVENUES AND EXPENDITURES (in billions)									
	Fiscal Years									
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	
Revenues	\$44.262	\$45.323	\$44.939	\$46.159	\$49.643	\$51.964	\$51.379	\$52,305	\$59.476	
Expenditures	(42.804)	(44.342)	(44.774)	(46.372)	(48.702)	(50.724)	(48.754)	(51,581)	(57.708)	
Surplus/(Deficit)	\$ 1.458	\$.981	\$.165	\$ (.213)	\$.941	\$ 1.240	\$ 2.625	\$ 0.724	\$ 1.768	

The cumulative fund balance or surplus for LEAs totaled \$10.300 billion at the end of FY 2008-09, an increase of \$2.315 billion from the prior year's total of \$7.985 billion. The increase in fund balance appears to primarily be attributable to an increase in federal revenues received in the latter part of FY 2008-09. Federal revenues increased by \$2.483 billion over last fiscal year (\$5.313 billion in FY 2007-08 as

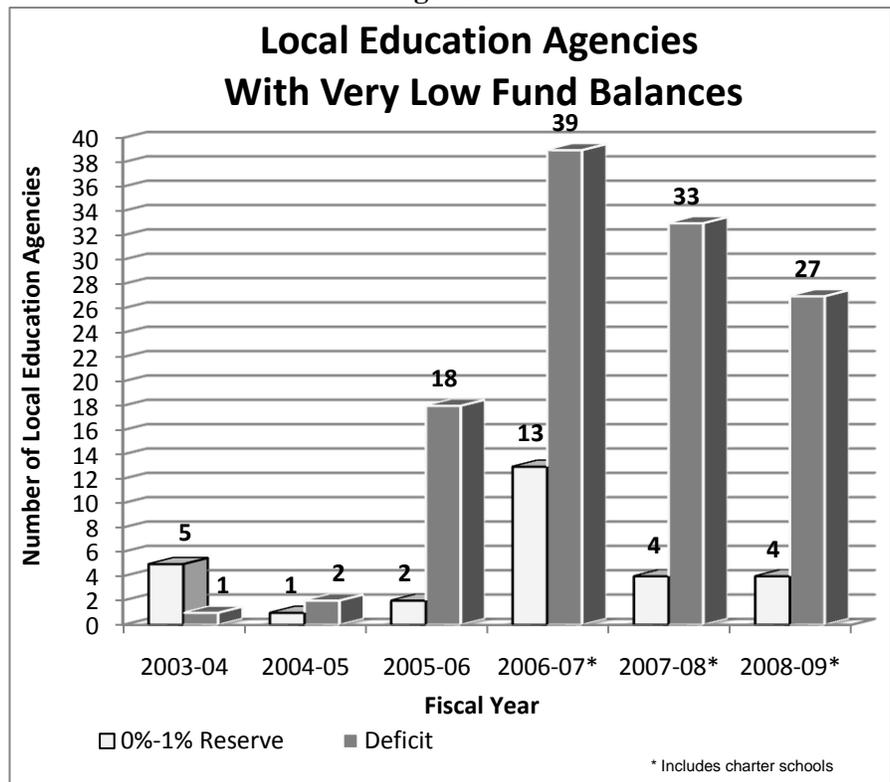
compared to \$7.796 billion in FY 2008-09). As part of the total fund balance, the LEAs are to maintain reserves as a defense against economic uncertainties. The California Department of Education issues guidelines regarding the amount of reserve each district should maintain, based on its total average daily attendance.

General Fund Balances

Number of LEAs with deficient fund balances decreased

The number of LEAs with deficient fund balances decreased from 37 in the prior year to 31 (16.2%). Of the 31 LEAs, 30 were charter schools. There also was an 18.2% decrease in LEAs with deficit fund balances (27 in FY 2008-09 compared with 33 in FY 2007-08, see Figure 5).

Figure 5



Long-Term Borrowing

LEAs' issuance of long-term financing increased

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.

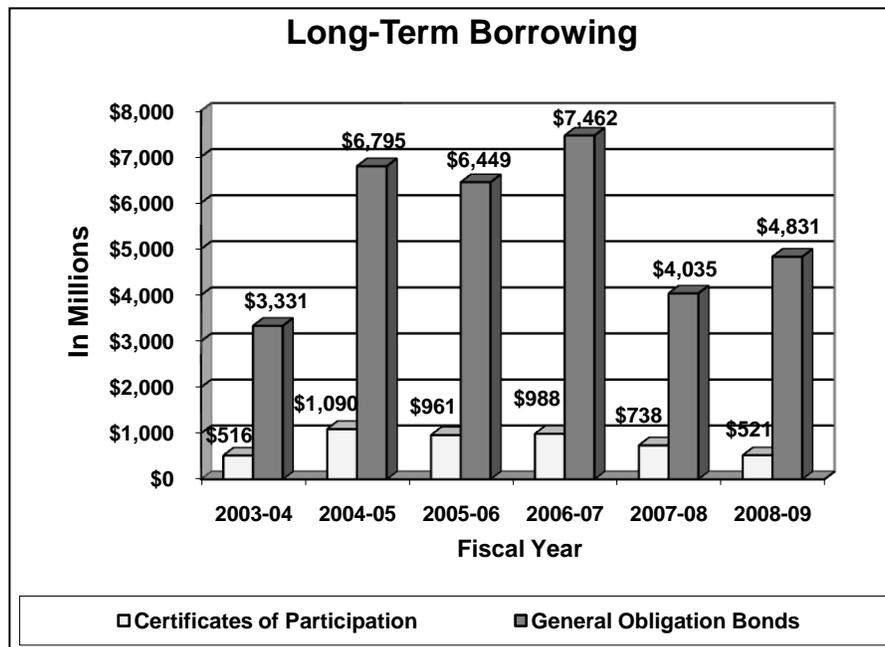
During FY 2008-09, LEAs issued \$5.643 billion in long-term debt, an increase of \$653 million over the prior year (13.09%). In FY 2008-09, the total number of LEAs that issued debt decreased by 4.81% from the prior fiscal year. LEAs issued the following types of long-term debt:

- **Certificates of Participation (\$521 million, or 9.24%)**—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 (\$4.831 billion, or 85.61%)**—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 (\$291 million, or 5.15%)**—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 \$5.352 billion in certificates of participation and general obligation bonds during FY 2008-09, an increase of \$578 million (12.11%) over the \$4.773 billion in the prior year (Figure 6).

Figure 6



Financing through certificates of participation decreased by \$217 million and financing through general obligation bonds increased by \$795 million over the prior year. The certificates of participation were issued by 27 LEAs during FY 2008-09.

Certificates of participation accounted for 9.24% of long-term borrowing in FY 2008-09, a 29.39% decrease from the previous year. In comparison, general obligation bonds accounted for 85.61% of long-term borrowing in FY 2008-09, an increase of 19.71% over the previous year.

Lottery Revenues

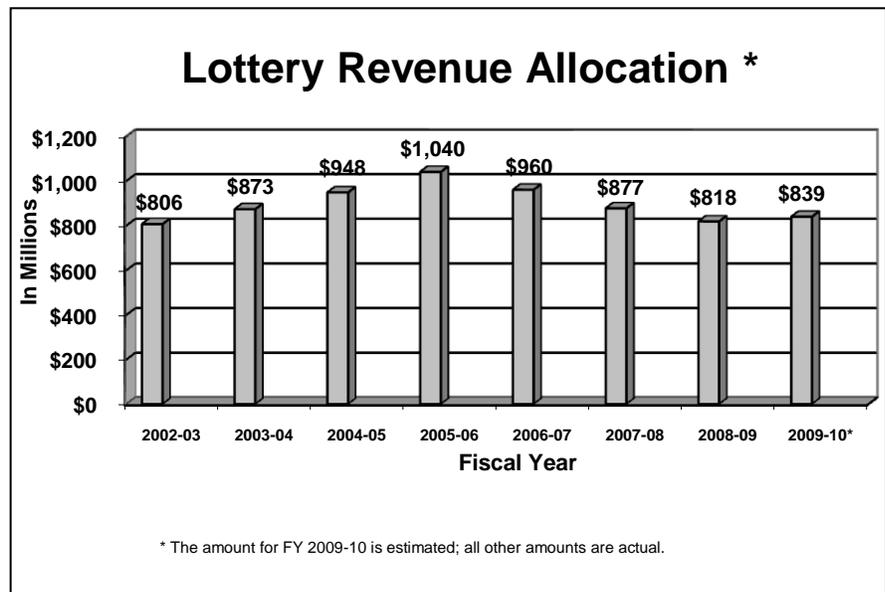
The allocation of Lottery revenues to K-12 school districts is based on a percentage of total Lottery sales for the year. Under state law, a minimum of 34% of Lottery sales must be distributed to school districts, community colleges, and other educational agencies. The distribution of this 34% between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

***Lottery revenues
projected to increase***

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.

Revenue for FY 2009-10 is projected to increase by 2.6% compared with FY 2008-09, up to \$839 million³—approximately \$125 per K-12 average daily attendance (Figure 7).

Figure 7



³ 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 (LEA'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 2008-09 LEA financial reports submitted by CPAs decreased from the prior year. There were 675 compliance findings in FY 2008-09, a 28.7% decrease from the 946 reported in FY 2007-08 (see Appendix C). The number of attendance accounting findings decreased by 87 from the prior year, from 238 to 151, or 36%.

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 675 audit findings, 516 (76.4%) pertained to state programs and requirements and 159 (23.6%) pertained to federal programs and requirements (see Figure 8). Attendance-related findings accounted for 22.4% of compliance findings. The majority of the attendance findings, representing approximately 62% of all attendance findings, were related to:

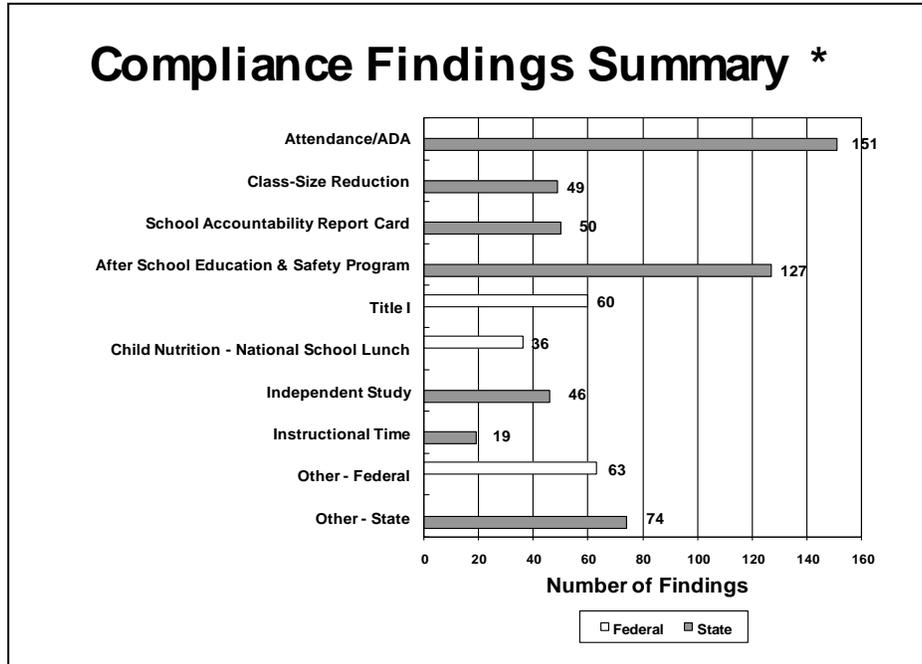
- Understated or overstated average daily attendance;
- Inaccurate or incomplete attendance reports; and
- Attendance reports not reconciling to supporting documentation.

The audit reports disclosed 127 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; and
- Other findings.

Figure 8



* See Appendix C

ARRA Expenditures and Compliance Findings

The American Recovery and Reinvestment Act of 2009—abbreviated ARRA and 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 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.

FY 2008-09 was the first year in which LEAs had ARRA funds to spend. However, due to the timing of the Act’s passage, the ARRA funds were not allocated to LEAs until late in FY 2008-09. As a result, FY 2008-09 ARRA expenditures were lower than they will be in future years.

Of the \$7.871 billion in federal award expenditures, \$642 million, or 8.16%, was ARRA-related expenditures.

Nine ARRA-related findings totaling \$2.157 million were reported, which represented 0.34% of ARRA expenditures. Of the nine ARRA findings, five (55%) pertained to the State Fiscal Stabilization Fund and four (45%) pertained to the Special Education program (see Figure 9).

Figure 9

ARRA Funds	Finding	Number of Findings
Special Education	Allowable costs/cost principles	1
Special Education	Period of availability of federal funds	3
State Fiscal Stabilization Fund	Cash management	1
State Fiscal Stabilization Fund	Period of availability of federal funds	1
State Fiscal Stabilization Fund	Procurement and suspension and debarment	1
State Fiscal Stabilization Fund	Reported revenue erroneous	1
State Fiscal Stabilization Fund	Sub-recipient monitoring	1
Total		9

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 was 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 2009-10, the State Controller's Office performed reviews of the audit resolution processes of six county offices of education.

Our reviews disclosed that five of the six county offices of education followed its audit resolution processes for FY 2006-07 and FY 2007-08.

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

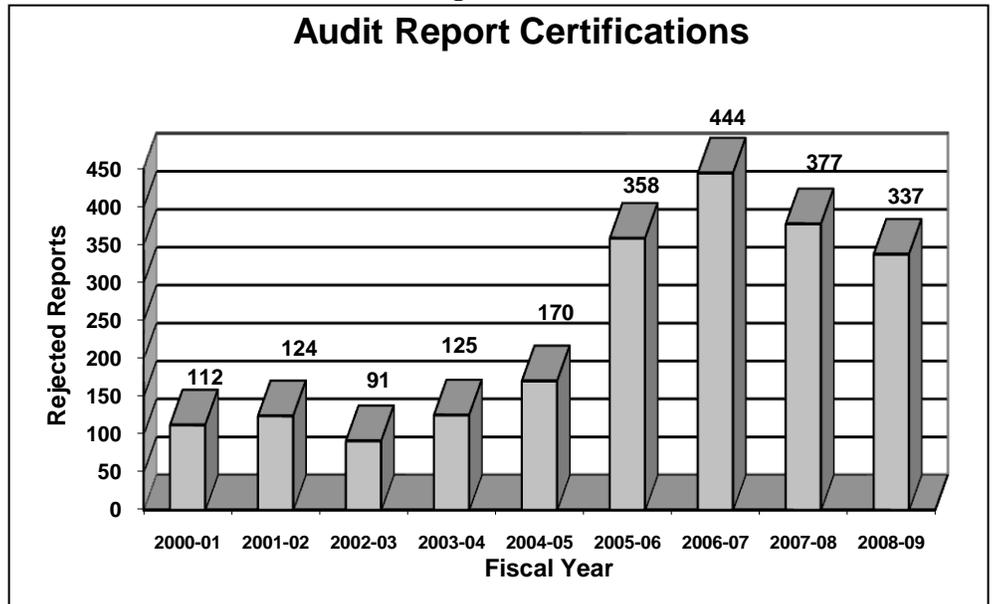
The State Controller’s Office determines whether audit reports conform to reporting provisions of the K-12 Audit Guide and notifies each local education agency, independent auditor, and the State Superintendent of Public Instruction as to whether a report has been accepted or rejected, based on conformity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

For FY 2008-09, the SCO accepted 77% of the audit reports; the remaining 23% 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.

Decrease in number of rejected audit reports

The number of rejected reports decreased by 40 over the prior year, from 377 to 337, an 11% decrease (Figure 10). Of the 337 reports rejected, 114 were charter school reports.

Figure 10



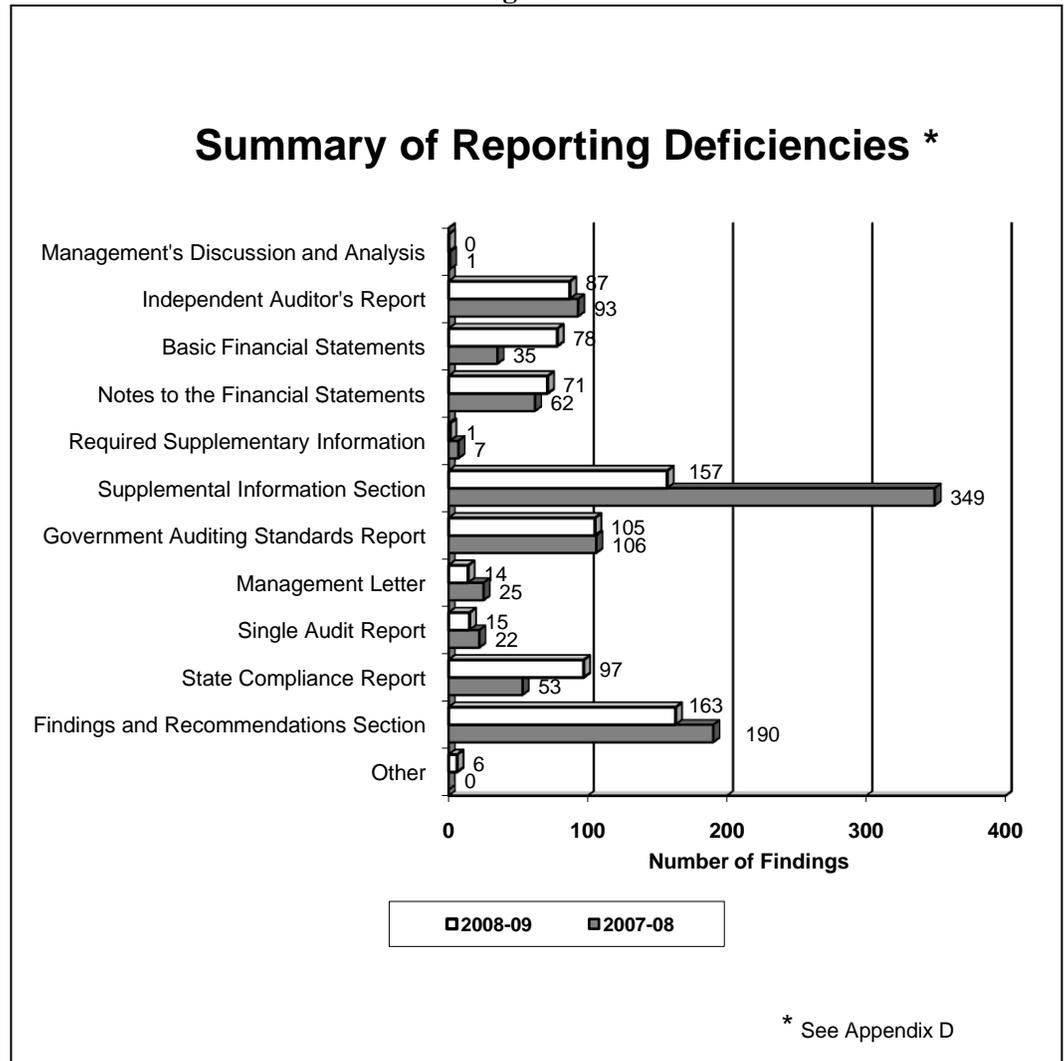
Reporting Deficiencies

Upon initial review, the State Controller’s Office certified 1,100 (77%) of the 1,437 audit reports submitted by independent CPAs for FY 2008-09.

Reporting deficiencies were decreased

There were 794 reporting deficiencies, a decrease of 149 from 943 in the prior year (Figure 11).

Figure 11

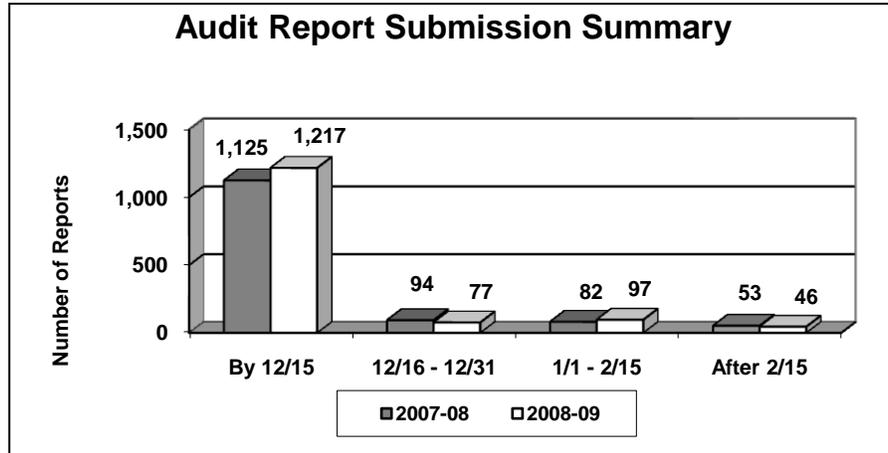


Timely Submissions

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 12



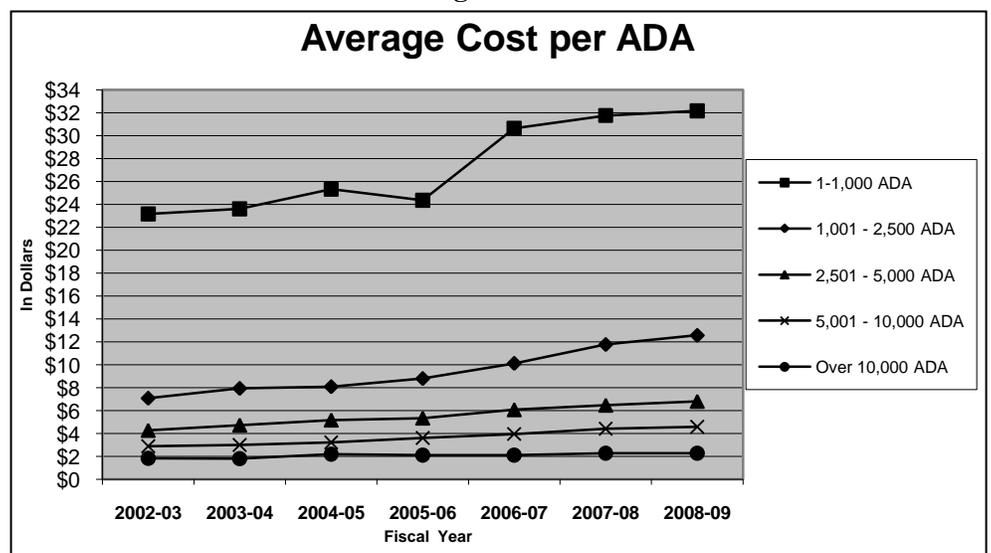
The number of annual school district, county office of education, and charter school audit reports submitted by the deadline increased from the previous year (Figure 12). Approximately 1,217, or 82.5%, of the 1,475 expected LEA reports were received by the December 15, 2009, deadline.

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 2008-09 audits totaled \$29.3 million, an increase of \$2.90 million, or 11%, more than total audit costs of \$26.4 million for FY 2007-08. The largest increase of 6.8% (\$0.80) was for LEAs reporting 1,001 to 2,500 ADA (Figure 13).

Figure 13



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 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 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)*; and
- Office of Management and Budget (OMB) Circular A-133.

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 opinion would be that the independent auditor fully 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 opinion 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 opinion 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 opinion is that the independent auditor did not comply with auditing standards and state and federal requirements. Such an opinion would 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:

- No documentation of the required communication with the predecessor auditor for new audits;
- No documentation of a fraud discussion among engagement personnel;
- No documentation of follow-up on prior audit findings;
- Firm did not document its overall strategy for the expected conduct and scope of the audit;
- Engagement letter did not contain all of the required elements or language;
- Firm did not issue an engagement letter;
- Firm did not obtain an audit contract; and
- Audit contract did not contain the required withholding provisions;

Internal Control:

- Firm did not determine whether internal control policies and procedures had been placed in operation;
- Assessment of risk of material misstatement was not adequately documented;
- No assessment of control risk; and
- No documentation of how the use of information technology could impact controls;

Federal Compliance:

- Required number of major programs were not audited; and
- Schedule of expenditures of federal awards was not supported by audit documentation.

State Compliance:

- Audit procedures listed in the K-12 Audit Guide were not performed.
- Report on state compliance was not properly modified when procedures were not performed;
- Current K-12 Audit Guide was not used to perform the audit;
- Exceptions or findings identified in the working papers were not included in the audit report; and
- Sample selection methodology was not random as required by the K-12 Audit Guide.

Working Papers:

- Working papers did not contain the objectives, scope and methodology;
- Sampling methodology was not documented;
- Legal representation letters were not obtained;
- Working papers did not support the calculation of available reserves as a percentage of total outgo reported on the Schedule of Financial Trends and Analysis;
- Working papers did not support the fund balances reported in the audit report;
- Level of substantive testing did not correspond to the thresholds documented in the working papers; and
- Audit documentation did not address the final analytical review objective.

Qualifications:

- Audit staff did not meet the continuing professional education requirements.

Reporting:

- Independent auditor's report on the financial statements did not describe the extent of testing of internal control over financial reporting;
- Report on internal control over financial reporting and on compliance and other matters did not include language defining control and significant deficiencies;
- Local revenue was not reported by source and expenditures were not reported by function on the financial statements; and
- Notes to the financial statements did not:
 - Contain a description of the component units and the district's relationship with the component units;
 - Show the composition of accounts payable; and
 - Disclose the number and type of funds (i.e., General Fund, Special Revenue Fund) used by the local education agency.

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	2008-09 Average Daily Attendance	2009-10 Interim Report		2008-09 Interim Report Second
				First	Second	
Alameda County:						
1. Alameda City Unified	No	No	10,718	Q	P	P
2. Emery Unified	No	No	743	Q	P	P
3. Hayward Unified	No	Yes	24,101	N ²	N	Q
4. Newark Unified	No	Yes	7,347	Q	Q	P
5. Oakland Unified	¹	¹	¹	Q	Q	Q
6. Pleasanton Unified	Yes	Yes ³	15,500	Q	P	Q
7. San Lorenzo Unified	No	No	12,076	Q	P	P
Amador County:						
8. Amador County Office of Education	No	No	266	Q	Q	Q
9. Amador County Unified	No	No	4,222	Q	Q	Q
Butte County:						
10. Chico Unified	No	No	12,144	N	Q	N
11. Paradise Unified	No	No	4,243	P	Q	P
Calaveras County:						
12. Mark Twain Union Elementary	No	No	762	Q	Q	Q
Contra Costa County:						
13. Anitoch Unified	No	No	18,472	Q	Q	P
14. Byron Union Elementary	No	No	1,624	Q	P	P
15. John Swett Unified	No	No	1,609	N	N	Q
16. Knightsen Elementary	No	No	480	Q	Q	Q
17. Martinez Unified	No	No	4,998	P	Q	Q
18. Mt. Diablo Unified	No	No	35,634	Q	P	P
19. San Ramon Valley Unified	No	No	26,229	P	Q	P
20. West Contra Costa Unified	No	No	29,333	Q	Q	Q
El Dorado County:						
21. Black Oak Mine Unified	No	No	1,733	Q	P	Q
22. Buckeye Union Elementary	No	No	4,646	Q	Q	P
23. Gold Oak Union Elementary	No	No	594	Q ²	Q	P
24. Gold Trail Union Elementary	No	No	527	Q ²	Q	Q
25. Mother Lode Union Elementary	No	No	1,324	Q ²	P	P
26. Rescue Union Elementary	No	No	3,974	Q	P	P
Fresno County:						
27. Golden Plains Unified	No	Yes	1,809	Q	Q	Q
28. Orange Center Elementary	No	No	310	Q	Q	N
29. Parlier Unified	No	No	3,253	Q	Q	Q
30. West Park Elementary	No	No	856	Q	P	P
Glenn County:						
31. Willows Unified	No	Yes	1,628	Q	Q	P
Humboldt County:						
32. Eureka City Unified	No	No	4,991	P	Q	Q
33. Mattole Unified	No	No	909	P	Q	P
34. Scotia Union Elementary	No	No	199	P	Q	P
35. Southern Humboldt Joint Unified	No	No	731	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	2008-09 Average Daily Attendance	2009-10 Interim Report		2008-09 Interim Report Second
				First	Second	
Imperial County:						
36. Imperial Unified	No	No	3,609	P	Q	P
Kern County:						
37. El Tejon Unified	No	No	1,204	Q	Q	Q
38. Lost Hills Union Elementary	No	No	573	P	Q	P
39. Muroc Joint Unified	No	No	1,948	Q	Q	Q
40. Panama-Buena Vista Union Elementary	No	Yes	15,807	P	Q	P
41. Southern Kern Unified	No	No	3,313	P	Q ²	Q
42. Taft City Elementary	No	No	2,001	Q	P	P
Lake County:						
43. Upper Lake Union Elementary	No	No	508	Q	Q	P
Lassen County:						
44. Westwood Unified	Yes	Yes	270	N	⁴	N
Los Angeles County:						
45. Acton-Agua Dulce Unified	No	No	1,389	Q	P	P
46. Antelope Valley Union High	No	No	23,881	Q	Q	P
47. Azusa Unified	No	No	12,417	P	Q	P
48. Burbank Unified	No	No	15,666	P	Q	P
49. Covina-Valley Unified	No	No	16,482	Q	Q	Q
50. Culver City Unified	No	No	7,241	P	Q	P
51. Eastside Union Elementary	No	No	3,047	P	Q	P
52. El Rancho Unified	No	No	11,668	P	Q	N
53. Garvey Elementary	No	No	5,652	P	Q	P
54. Glendale Unified	No	No	25,765	P	Q	P
55. Hawthorne Elementary	No	No	8,706	P	Q	Q
56. Inglewood Unified	No	No	15,453	Q	Q	Q ²
57. Lancaster Elementary	No	No	14,138	Q	Q	P
58. Las Virgenes Unified	No	No	11,256	P	Q	Q
59. Lennox Elementary	No	No	6,026	P	Q	P
60. Little Lake City Elementary	No	No	4,815	P	Q	P
61. Los Angeles Unified	No	No	702,931	Q	Q	Q
62. Los Nietos Elementary	No	No	1,958	P	Q	Q
63. Lowell Joint Elementary	No	No	2,950	P	Q	P
64. Lynwood Unified	No	No	16,817	N	N	P
65. Monrovia Unified	No	No	6,680	P	Q	P
66. Montebello Unified	No	No	37,301	Q	Q	P
67. Newhall Elementary	No	No	6,814	P	Q	P
68. Norwalk-La Mirada Unified	No	No	23,141	P	Q	P
69. Paramount Unified	No	No	16,406	P	Q	P
70. Pomona Unified	No	No	34,667	P	Q	Q
71. Rosemead Elementary	No	No	3,011	P	Q	P
72. Rowland Unified	No	No	17,229	Q	Q	P
73. San Gabriel Unified	No	No	5,306	P	Q	P
74. Santa Monica-Malibu Unified	No	No	11,169	P	Q	P
75. South Pasadena Unified	No	No	4,157	P	Q ²	P
76. Whittier City Elementary	No	No	6,396	P	Q	Q
77. William S. Hart Union High	No	No	22,961	Q	Q	P
78. Wilsona Elementary	No	No	1,584	Q	Q	N ²

Appendix A (continued)

County	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2008-09 Average Daily Attendance	2009-10 Interim Report		2008-09 Interim Report Second
School District/County Office						
Mariposa County:						
79. Mariposa COE	No	No	62	Q	Q	P
80. Mariposa County Unified	No	No	2,026	Q	N	P
Mendocino County:						
81. Laytonville Unified	No	No	353	Q	Q	Q
82. Potter Valley Community Unified	No	No	242	Q	Q	Q
83. Round Valley Unified	No	No	288	P	Q	P
84. Ukiah Unified	No	Yes ³	5,968	Q	Q	Q
Merced County:						
85. Dos Palos-Oro Loma Joint Unified	No	Yes ³	2,511	P	Q	P
86. Le Grand Union High	No	No	534	P	Q	P
Mono County:						
87. Eastern Sierra Unified	No	No	440	P	Q ²	P
Monterey County:						
88. King City Joint Union High	Yes	Yes	2,317	N	Q	N
89. King City Union Elementary	No	No	2,314	P	Q	N
90. North Monterey County Unified	No	Yes	4,652	P	Q	P
91. Santa Rita Union Elementary	No	No	2,913	Q	Q	P
92. Washington Union Elementary	No	No	918	P	Q	P
Nevada County:						
93. Nevada City Elementary	No	No	1,179	Q	Q	P
Orange County:						
94. Anaheim City Elementary	No	No	18,600	Q	Q	P
95. Buena Park Elementary	No	No	5,373	P	Q	P
96. Capistrano Unified	No	No	51,431	Q	Q	P
97. Centralia Elementary	No	No	4,610	Q	Q	P
98. Fullerton Elementary	No	No	13,123	Q	Q	P
99. Garden Grove Unified	No	No	50,862	Q	Q	Q
100. Huntington Beach City Elementary	No	No	6,497	Q	Q	P
101. Irvine Unified	No	No	26,660	Q	P	P
102. La Habra City Elementary	No	No	5,452	Q	Q	P
103. Saddleback Valley Unified	Yes	Yes ²	33,922	Q	Q	P
104. Santa Ana Unified	No	No	52,631	Q	Q	Q
105. Westminster Elementary	No	No	9,605	P	Q	P
Placer County:						
106. Auburn Union Elementary	No	No	2,072	Q	Q	P
107. Colfax Elementary	No	No	377	N	Q	P
108. Dry Creek Joint Elementary	No	No	7,044	Q	P	P
109. Loomis Union Elementary	No	No	2,267	Q	P	P
110. Placer Hills Union Elementary	No	No	1,095	Q	Q	Q
111. Placer Union High	No	No	5,134	Q	P	P
112. Rocklin Unified	No	No	9,936	Q	Q	P
Riverside County:						
113. Alvord Unified	No	No	19,103	P	Q ²	P
114. Coachella Valley Unified	No	No	17,951	P	Q ²	P
115. Desert Sands Unified	No	No	27,639	P	Q	P
116. Menifee Union Elementary	No	No	8,304	P	Q	P
117. Moreno Valley Unified	No	No	34,143	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	2008-09 Average Daily Attendance	2009-10 Interim Report		2008-09 Interim Report Second
Riverside County: (continued)						
118. Nuvview Union Elementary	No	No	1,839	P	Q	P
119. Palo Verde Unified	No	No	3,397	Q	Q	P
120. Perris Elementary	No	No	5,472	Q	P	P
121. Riverside Unified	No	No	43,081	Q	Q	P
122. Temecula Valley Unified	No	No	27,573	P	Q	P
123. Val Verde Unified	No	No	18,273	N	Q	N
Sacramento County:						
124. Elk Grove Unified	No	No	60,304	Q	Q	Q
125. Folsom-Cordova Unified	No	No	18,774	Q	Q	Q
126. Natomas Unified	No	No	11,671	N	N	Q
127. Robla Elementary	No	No	1,849	P	Q	P
128. Sacramento City Unified	No	No	49,649	Q	Q	Q
129. San Juan Unified	No	No	47,698	Q	Q	Q
130. Twin Rivers Unified	No	No	28,161	Q	Q	P
San Benito County:						
131. Aromas-San Juan Unified	No	Yes	1,219	N	N	N
132. Hollister Elementary	No	Yes ³	5,509	Q	Q	P
San Bernardino County:						
133. Alta Loma Elementary	No	No	6,374	P	Q	P
134. Baker Valley Unified	No	No	197	Q	Q	P
135. Bear Valley Unified	No	No	2,917	P	Q	P
136. Central Elementary	No	No	4,676	P	Q	P
137. Chino Valley Unified	No	No	32,377	P	Q	P
138. Etiwanda Elementary	No	No	12,149	P	Q	P
139. Hesperia Unified	No	No	19,988	P	Q	P
140. Lucerne Valley Unified	No	Yes ³	2,020	Q	Q	Q
141. Rialto Unified	No	No	25,831	P	Q	P
142. Yucaipa-Calimesa Joint Unified	No	No	9,846	Q	Q	Q
San Diego County:						
143. La Mesa-Spring Valley Elementary	No	No	12,220	P	Q	Q
144. Oceanside Unified	No	No	19,626	P	Q	P
145. Ramona Unified	No	No	6,403	P	Q	P
146. San Ysidro Elementary	No	No	4,660	Q	Q	Q
San Joaquin County:						
147. Tracy Joint Unified	No	No	16,073	Q	P	Q
San Luis Obispo County:						
148. Atascadero Unified	No	No	4,870	Q	Q	Q
149. Lucia Mar Unified	No	No	10,702	Q	Q	Q
150. Paso Robles Joint Unified	No	No	6,782	Q	Q	Q
151. Pleasant Valley Joint Union Elem.	No	No	127	P	Q	P
152. San Miguel Joint Union Elementary	No	No	527	Q	Q	Q
153. Shandon Joint Unified	No	No	314	Q	Q ²	Q
San Mateo County:						
154. Bayshore Elementary	No	No	421	Q ²	P	P
155. Belmont-Redwood Shores Elementary	No	No	2,632	P	Q	P
156. La Honda-Pescadero Unified	No	No	354	Q ²	Q	N ²
157. San Carlos Elementary	No	No	2,863	Q	P	P

Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2008-09 Average Daily Attendance	2009-10 Interim Report		2008-09 Interim Report Second
Santa Clara County:						
158. East Side Union High	No	No	26,947	Q	Q	P
159. Franklin-McKinley Elementary	No	No	9,563	Q	N ²	Q
160. Gilroy Unified	No	No	10,152	Q ²	P	N
161. Milpitas Unified	No	No	12,765	P	Q	Q
162. Orchard Elementary	No	No	818	Q	N ²	Q
Santa Cruz County:						
163. Pajaro Valley Unified	No	No	19,777	Q	P	N
164. Santa Cruz City Schools	No	No	7,175	Q	Q	N
Shasta County:						
165. Anderson Union High	No	No	2,062	Q	Q	P
166. Cascade Union Elementary	No	No	1,436	Q	Q	Q
167. Castle Rock Union Elementary	No	No	69	P	Q	P
168. Cottonwood Union Elementary	No	No	1,079	Q	Q	Q
169. Happy Valley Union Elementary	No	No	535	Q	Q	P
170. Oak Run Elementary	No	No	36	P	Q	P
171. Pacheco Union Elementary	No	No	595	Q	Q	Q
Solano County:						
172. Dixon Unified	No	No	3,909	Q	Q	N
173. Fairfield-Suisun Unified	No	No	22,242	P	Q	P
174. Travis Unified	No	Yes ³	5,125	N	N	N
175. Vallejo City Unified	¹	¹	¹	N	N	N
Sonoma County:						
176. Cloverdale Unified	No	No	1,419	Q	N	P
177. Cotati-Rohnert Park Unified	No	No	6,188	Q	N	P
178. Forestville Union Elementary	No	No	425	Q ²	Q	Q ²
179. Geyserville Unified	No	No	254	Q	Q	Q
180. Healdsburg Unified	No	No	2,106	Q	N ²	N
181. Piner-Olivet Union Elementary	No	No	1,646	Q	Q ²	N ²
182. Sebastopol Union Elementary	No	No	843	Q	Q	P
183. West Sonoma County Union High	No	No	2,207	Q	Q	Q
Stanislaus County:						
184. Ceres Unified	No	No	11,525	P	Q	P
185. Salida Union Elementary	No	No	2,858	Q	Q	P
186. Stanislaus Union Elementary	No	No	3,057	Q	Q	P
Tehama County:						
187. Antelope Elementary	No	No	633	P	Q	Q
188. Reeds Creek Elementary	No	No	142	Q	Q ²	P
Tulare County:						
189. Stone Corral Elementary	No	No	124	Q	Q	Q
Tuolumne County:						
190. Big Oak Flat-Groveland Unified	No	No	480	Q	P	P
191. Curtis Creek Elementary	No	No	600	Q	Q	Q
192. Summerville Union High	No	No	680	Q	Q	P
193. Twain Harte-Long Barn Union Elem.	No	No	351	Q	P	P

Appendix A (continued)

County	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2008-09 Average Daily Attendance	2009-10 Interim Report		2008-09 Interim Report Second
School District/County Office						
Ventura County:						
194. Hueneme Elementary	No	No	7,716	P	Q	P
195. Rio Elementary	No	No	4,117	P	Q	P
196. Santa Paula Elementary	No	No	3,580	Q	Q	P
Yuba County:						
197. Marysville Joint Unified	No	No	9,757	P	Q	P

Legend: P = Positive Q = Qualified N = Negative

¹ Annual audit report has not been submitted; therefore, the information was not available.

² County office of education changed certification.

³ Disclosed in the Schedule of Findings and Questioned Costs.

⁴ Second interim certification not submitted.

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

County	Analysis of Key Indicators for Financial Difficulties										
	School District/County Office	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	Independent Position Control ⁹
Alameda County:											
1.	Alameda City Unified	Q / P	✓	✓	✓	✓	✓			✓	✓
2.	Emery Unified	Q / P	✓		✓	✓	✓	✓		✓	
3.	Hayward Unified	N / N	✓	✓	✓	✓	✓	✓	✓		✓
4.	Newark Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
5.	Oakland Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
6.	Pleasanton Unified	Q / P		✓	✓	✓	✓	✓	✓		
7.	San Lorenzo Unified	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
Amador County:											
8.	Amador Co. Office of Education	Q / Q	✓	✓	✓	✓		✓	✓		
9.	Amador County Unified	Q / Q	✓	✓		✓	✓	✓	✓	✓	✓
Butte County:											
10.	Chico Unified	N / Q	✓		✓	✓	✓	✓	✓	✓	✓
11.	Paradise Unified	P / Q	✓	✓		✓		✓	✓	✓	
Calaveras County:											
12.	Mark Twain Union Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
Contra Costa County:											
13.	Antioch Unified	Q / Q	✓	✓	✓	✓	✓	✓		✓	
14.	Byron Union Elementary	Q / P	✓	✓	✓	✓	✓		✓		✓
15.	John Swett Unified	N / N	✓	✓	✓	✓	✓	✓	✓	✓	✓
16.	Knightsen Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
17.	Martinez Unified	P / Q	✓	✓		✓	✓		✓		✓
18.	Mt. Diablo Unified	Q / P	✓	✓	✓		✓	✓		✓	✓
19.	San Ramon Valley Unified	P / Q	✓	✓		✓	✓		✓		
20.	West Contra Costa Unified	Q / Q	✓	✓	✓		✓	✓	✓	✓	
El Dorado County:											
21.	Black Oak Mine Unified	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
22.	Buckeye Union Elementary	Q / Q	✓		✓	✓	✓	✓		✓	
23.	Gold Oak Union Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
24.	Gold Trail Union Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
25.	Mother Lode Union Elementary	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
26.	Rescue Union Elementary	Q / P	✓	✓	✓	✓	✓	✓	✓		

Appendix B (continued)

County	Analysis of Key Indicators of Financial Difficulties										
	School District/County Office	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	Independent Position Control ⁹
Fresno County:											
27.	Golden Plains Unified	Q / Q	✓	✓	✓	✓		✓	✓		✓
28.	Orange Center Elementary	Q / Q	✓	✓	✓	✓	✓	✓		✓	
29.	Parlier Unified	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
30.	West Park Elementary	Q / P	✓		✓	✓	✓	✓			
Glenn County:											
31.	Willows Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
Humboldt County:											
32.	Eureka City Unified	P / Q	✓	✓		✓	✓			✓	✓
33.	Mattole Unified	P / Q	✓	✓	✓	✓		✓	✓		✓
34.	Scotia Union Elementary	P / Q		✓	✓	✓		✓	✓		
35.	Southern Humboldt Jt. Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
Imperial County:											
36.	Imperial Unified	P / Q	✓	✓	✓	✓					
Kern County:											
37.	El Tejon Unified	Q / Q				✓		✓	✓		
38.	Lost Hills Union Elementary	P / Q	✓	✓	✓	✓	✓				
39.	Muroc Joint Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓		
40.	Panama-Buena Vista Union Elem.	P / Q	✓	✓	✓	✓	✓			✓	
41.	Southern Kern Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
42.	Taft City Elementary	Q / P	✓	✓	✓		✓	✓			
Lake County:											
43.	Upper Lake Union Elementary	Q / Q	✓	✓	✓		✓	✓	✓	✓	✓
Lassen County:											
44.	Westwood Unified	N / ¹⁰	✓		✓	✓	✓	✓	✓	✓	✓
Los Angeles County:											
45.	Acton-Agua Dulce Unified	Q / P	✓	✓	✓	✓	✓			✓	
46.	Antelope Valley Union High	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
47.	Azusa Unified	P / Q	✓		✓			✓	✓	✓	✓
48.	Burbank Unified	P / Q	✓	✓	✓	✓	✓	✓	✓		
49.	Covina-Valley Unified	Q / Q	✓	✓	✓	✓		✓		✓	✓
50.	Culver City Unified	P / Q	✓	✓	✓	✓	✓	✓	✓		
51.	Eastside Union Elementary	P / Q									
52.	El Rancho Unified	P / Q	✓			✓	✓		✓	✓	✓
53.	Garvey Elementary	P / Q	✓	✓			✓		✓	✓	

Appendix B (continued)

Analysis of Key Indicators of Financial Difficulties										
County	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	Independent Position Control ⁹
School District/County Office										
Los Angeles County: (continued)										
54. Glendale Unified	P / Q	✓	✓		✓	✓		✓	✓	
55. Hawthorne Elementary	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	
56. Inglewood Unified	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
57. Lancaster Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
58. Las Virgenes Unified	P / Q	✓	✓			✓		✓		✓
59. Lennox Elementary	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
60. Little Lake City Elementary	P / Q	✓	✓		✓	✓	✓			✓
61. Los Angeles Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
62. Los Nietos Elementary	P / Q									
63. Lowell Joint Elementary	P / Q	✓	✓	✓	✓	✓				
64. Lynwood Unified	N / N	✓	✓	✓	✓	✓	✓	✓	✓	
65. Monrovia Unified	P / Q									
66. Montebello Unified	Q / Q	✓	✓	✓	✓	✓	✓		✓	
67. Newhall Elementary	P / Q	✓	✓	✓	✓	✓		✓		✓
68. Norwalk-La Mirada Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
69. Paramount Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	
70. Pomona Unified	P / Q	✓	✓	✓	✓	✓		✓	✓	✓
71. Rosemead Elementary	P / Q	✓	✓	✓	✓	✓		✓	✓	
72. Rowland Unified	Q / Q	✓	✓	✓				✓	✓	✓
73. San Gabriel Unified	P / Q	✓		✓	✓		✓	✓	✓	✓
74. Santa Monica-Malibu Unified	P / Q	✓	✓	✓	✓					
75. South Pasadena Unified	P / Q	✓	✓	✓	✓			✓		✓
76. Whittier City Elementary	P / Q	✓	✓			✓			✓	
77. William S. Hart Union High	Q / Q	✓	✓	✓	✓	✓	✓			
78. Wilsona Elementary	Q / Q		✓	✓	✓		✓	✓	✓	
Mariposa County:										
79. Mariposa County Office of Education	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
80. Mariposa County Unified	Q / N	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mendocino County:										
81. Laytonville Unified	Q / Q	✓	✓	✓	✓	✓	✓			
82. Potter Valley Comm. Unified	Q / Q	✓	✓			✓		✓	✓	✓
83. Round Valley Unified	P / Q	✓	✓	✓		✓	✓	✓	✓	✓
84. Ukiah Unified	Q / Q	✓	✓	✓	✓	✓			✓	✓

Appendix B (continued)

County	Analysis of Key Indicators of Financial Difficulties										
	School District/County Office	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	Independent Position Control ⁹
Merced County:											
	85. Dos Palos-Oro Loma Jt. Unified	P / Q		✓					✓	✓	
	86. Le Grand Union High	P / Q	✓	✓	✓	✓	✓		✓	✓	✓
Mono County:											
	87. Eastern Sierra Unified	P / Q	✓	✓	✓	✓		✓			✓
Monterey County:											
	88. King City Joint Union High	N / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	89. King City Union Elementary	P / Q	✓	✓	✓	✓	✓		✓		
	90. North Monterey County Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	91. Santa Rita Union Elementary	Q / Q	✓	✓		✓	✓		✓	✓	✓
	92. Washington Union Elementary	P / Q	✓	✓	✓	✓	✓	✓			
Nevada County:											
	93. Nevada City Elementary	Q / Q	✓	✓	✓	✓		✓	✓	✓	
Orange County:											
	94. Anaheim City Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓		
	95. Buena Park Elementary	P / Q	✓	✓	✓		✓			✓	
	96. Capistrano Unified	Q / Q	✓	✓	✓	✓		✓	✓		✓
	97. Centralia Elementary	Q / Q	✓	✓					✓	✓	✓
	98. Fullerton Elementary	Q / Q	✓	✓	✓	✓		✓	✓		✓
	99. Garden Grove Unified	Q / Q	✓	✓	✓	✓			✓		✓
	100. Huntington Beach City Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
	101. Irvine Unified	Q / P	✓	✓	✓	✓	✓	✓	✓		✓
	102. La Habra City Elementary	Q / Q	✓	✓	✓	✓	✓	✓		✓	
	103. Saddleback Valley Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	104. Santa Ana Unified	Q / Q	✓	✓	✓	✓		✓	✓		
	105. Westminster Elementary	P / Q	✓	✓			✓		✓	✓	✓
Placer County:											
	106. Auburn Union Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓		
	107. Colfax Elementary	N / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	108. Dry Creek Joint Elementary	Q / P	✓	✓	✓		✓	✓	✓	✓	✓
	109. Loomis Union Elementary	Q / P	✓	✓	✓	✓	✓		✓	✓	
	110. Placer Hills Union Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	111. Placer Union High	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
	112. Rocklin Unified	Q / Q	✓	✓	✓	✓		✓			

Appendix B (continued)

County	Analysis of Key Indicators of Financial Difficulties										
	School District/County Office	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	Independent Position Control ⁹
Riverside County:											
	113. Alvord Unified	P / Q	✓	✓		✓			✓		✓
	114. Coachella Valley Unified	P / Q	✓	✓	✓		✓		✓		✓
	115. Desert Sands Unified	P / Q	✓	✓	✓	✓	✓	✓	✓		✓
	116. Menifee Union Elementary	P / Q	✓	✓		✓	✓				
	117. Moreno Valley Unified	P / Q	✓		✓		✓				
	118. Nuview Union Elementary	P / Q	✓	✓	✓		✓		✓		
	119. Palo Verde Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	120. Perris Elementary	Q / P	✓	✓	✓	✓		✓			
	121. Riverside Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	122. Temecula Valley Unified	P / Q	✓	✓		✓					
	123. Val Verde Unified	N / Q	✓	✓	✓	✓	✓		✓		✓
Sacramento County:											
	124. Elk Grove Unified	Q / Q	✓	✓	✓	✓	✓	✓			✓
	125. Folsom-Cordova Unified	Q / Q	✓	✓	✓	✓	✓	✓			✓
	126. Natomas Unified	N / N	✓	✓	✓	✓	✓	✓	✓		
	127. Robla Elementary	P / Q	✓	✓	✓	✓	✓	✓			✓
	128. Sacramento City Unified	Q / Q	✓	✓	✓		✓	✓	✓		✓
	129. San Juan Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
	130. Twin Rivers Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
San Benito County:											
	131. Aromas-San Juan Unified	N / N	✓	✓	✓	✓	✓	✓		✓	✓
	132. Hollister Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
San Bernardino County:											
	133. Alta Loma Elementary	P / Q	✓	✓	✓	✓		✓		✓	
	134. Baker Valley Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
	135. Bear Valley Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	136. Central Elementary	P / Q	✓	✓		✓	✓	✓	✓	✓	✓
	137. Chino Valley Unified	P / Q	✓	✓		✓	✓		✓	✓	
	138. Etiwanda Elementary	P / Q	✓	✓		✓	✓	✓			
	139. Hesperia Unified	P / Q	✓	✓		✓					✓
	140. Lucerne Valley Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
	141. Rialto Unified	P / Q	✓	✓	✓	✓	✓	✓			
	142. Yucaipa-Calimesa Joint Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	

Appendix B (continued)

Analysis of Key Indicators of Financial Difficulties										
County	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	Independent Position Control ⁹
School District/County Office										
San Diego County:										
143. La Mesa-Spring Valley Elem.	P / Q	✓	✓	✓	✓				✓	✓
144. Oceanside Unified	P / Q	✓								
145. Ramona Unified	P / Q	✓	✓	✓	✓	✓			✓	✓
146. San Ysidro Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
San Joaquin County:										
147. Tracy Joint Unified	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
San Luis Obispo County:										
148. Atascadero Unified	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
149. Lucia Mar Unified	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
150. Paso Robles Joint Unified	Q / Q	✓	✓	✓	✓	✓	✓			
151. Pleasant Valley Joint Unified	P / Q	✓	✓	✓		✓			✓	✓
152. San Miguel Joint Union Elem.	Q / Q	✓	✓	✓	✓	✓		✓		✓
153. Shandon Joint Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
San Mateo County:										
154. Bayshore Elementary	Q / P		✓	✓	✓		✓	✓		✓
155. Belmont-Redwood Shores Elem.	P / Q	✓	✓		✓	✓		✓		
156. La Honda-Pescadero Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
157. San Carlos Elementary	Q / P	✓	✓	✓	✓	✓	✓	✓		✓
Santa Clara County:										
158. East Side Union High	Q / Q	✓	✓	✓	✓	✓	✓		✓	
159. Franklin-McKinley Elementary	Q / N	✓	✓	✓	✓	✓	✓			✓
160. Gilroy Unified	Q / P	✓	✓	✓	✓	✓	✓			✓
161. Milpitas Unified	P / Q									
162. Orchard Elementary	Q / N	✓	✓	✓	✓	✓	✓	✓		
Santa Cruz County:										
163. Pajaro Valley Unified	Q / P	✓	✓	✓	✓	✓	✓	✓		
164. Santa Cruz City Schools	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
Shasta County:										
165. Anderson Union High	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
166. Cascade Union Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
167. Castle Rock Union Elementary	P / Q		✓		✓			✓		
168. Cottonwood Union Elementary	Q / Q	✓	✓	✓	✓	✓		✓	✓	
169. Happy Valley Union Elementary	Q / Q	✓	✓	✓	✓		✓	✓	✓	
170. Oak Run Elementary	P / Q	✓	✓		✓		✓	✓	✓	✓
171. Pacheco Union Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓

Appendix B (continued)

County	Analysis of Key Indicators for Financial Difficulties									
	School District/County Office	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸
Solano County:										
172. Dixon Unified	Q / Q	✓	✓	✓	✓		✓	✓	✓	✓
173. Fairfield-Suisun Unified	P / Q	✓	✓		✓				✓	
174. Travis Unified	N / N	✓	✓	✓	✓	✓	✓		✓	✓
175. Vallejo City Unified	N / N	✓	✓	✓	✓	✓	✓	✓	✓	
Sonoma County:										
176. Cloverdale Unified	Q / N	✓	✓	✓	✓	✓		✓	✓	
177. Cotati-Rohnert Park Unified	Q / N	✓	✓	✓	✓	✓	✓	✓	✓	✓
178. Forestville Union Elementary	Q / Q	✓		✓	✓	✓	✓	✓	✓	✓
179. Geyserville Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓		
180. Healdsburg Unified	Q / N	✓	✓	✓	✓	✓	✓	✓	✓	✓
181. Piner-Olivet Union Elementary	Q / Q		✓	✓	✓	✓	✓	✓	✓	
182. Sebastopol Union Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
183. West Sonoma Co. Union High	Q / Q	✓	✓	✓	✓	✓	✓		✓	✓
Stanislaus County:										
184. Ceres Unified	P / Q	✓	✓		✓		✓	✓		
185. Salida Union Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
186. Stanislaus Union Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tehama County:										
187. Antelope Elementary	P / Q	✓	✓	✓	✓	✓	✓		✓	✓
188. Reeds Creek Elementary	Q / Q	✓	✓	✓		✓	✓		✓	✓
Tulare County:										
189. Stone Corral Elementary	Q / Q	✓	✓	✓	✓	✓	✓			✓
Tuolumne County:										
190. Big Oak Flat-Groveland Unified	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	
191. Curtis Creek Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
192. Summerville Union High	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	
193. Twain Harte-Long Barn Union Elementary	Q / P	✓		✓	✓		✓	✓	✓	✓
Ventura County:										
194. Hueneme Elementary	P / Q	✓	✓	✓	✓	✓		✓		
195. Rio Elementary	P / Q	✓	✓	✓	✓	✓	✓			
196. Santa Paula Elementary	Q / Q	✓	✓	✓	✓	✓	✓	✓		✓
Yuba County:										
197. Marysville Joint Unified	P / Q	✓	✓	✓	✓		✓	✓	✓	

Legend: P=Positive Q=Qualified N=Negative

- ¹ Unrestricted deficit spending exceeded one-third of available reserves in any of the current or two subsequent fiscal years.
- ² 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.
- ³ 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.
- ⁴ 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.
- ⁵ Available reserves (e.g., designated for economic uncertainties, undesignated amounts) did not meet minimum requirements for the current and two subsequent fiscal years.
- ⁶ 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.
- ⁷ Salaries and benefit negotiations are unsettled for certificated employees, classified employees, and/or management/supervisor/confidential employees as of budget adoption or second interim projections.
- ⁸ Enrollment decreased in both the prior and current fiscal years.
- ⁹ 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.
- ¹⁰ Second interim certification was not submitted.

Appendix C— Summary of Audit Report Compliance Findings

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE		
Attendance Requirements	ADA overstated by 0-5 ADA	29
	ADA overstated by 10-20 ADA	1
	ADA overstated by 5-10 ADA	4
	ADA understated by 0-5 ADA	13
	ADA understated by 10-20 ADA	1
	ADA understated by 5-10 ADA	1
	Absences were claimed for apportionment	7
	Attendance accounting system not approved by CDE	2
	Attendance registers/scantrons not signed by teachers	14
	Attendance report did not reconcile to supporting documentation	23
	Attendance report inaccurate/incomplete	23
	Excused absences – problems with verification procedures/documentation	7
	Lack of documentation/records	8
	Minimum day requirements not met	1
	Other finding	3
	Teacher not authorized to instruct limited-English-proficient pupils	9
	Teacher(s) did not possess a valid certification document	2
	Excused/unexcused absences improperly recorded	1
	Kindergarten retention forms are not maintained and/or properly approved	2
	Adult Education	Attendance accounting deficiency
Other finding		2
Independent Study	Attendance overstated	13
	Independent study contract did not include all required elements	22
	Independent study work samples not maintained	3
	Other finding	8
Community Day Schools	Attendance report inaccurate	6
Continuation Education	Attendance accounting deficiency	17
	Other finding	2
Summer School	Attendance accounting deficiency	5
Ratios of Administrative Employees to Teachers	Number of administrators per hundred exceeded the allowable ratio	3
Annual Instructional Minutes – Classroom	Instructional time requirements not met	1
Child Development	Other finding	1
Class-Size Reduction	Lack of documentation/records	1
	Number of classes and pupils reported on Form J-7 CSR overstated	24
	Number of classes and pupils reported on Form J-7 CSR understated	19
	Positive daily enrollment records/counts not maintained	1
	Other finding	4

Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
Consolidated Application	Other finding	1
Determination of Funding for Non-classroom-Based Instruction	Other finding	2
Gann Limit	Appropriations limit calculation deficiency	2
Inventory of Equipment	Inventory of equipment not maintained	14
Instructional Time	Instructional time requirements not met	15
	Lack of documentation/records	1
	Other finding	3
School Accountability Report Card	District did not follow uniform complaint process	8
	School accountability report card not published	11
	Other finding	8
	SARC information inconsistent with availability of sufficient textbooks and other instructional materials	1
	SARC information inconsistent with evaluation instrument	22
After School Education and Safety Program	Administrative costs exceeded 15% of state funding	4
	Indirect costs overstated	3
	LEA did not establish policies regarding reasonable early daily release of pupils	9
	LEA did not establish policies regarding reasonable late daily arrival of pupils	3
	Noncompliance with matching requirements	4
	Reported number of students served not supported by written records or does not reconcile to supporting documents	94
	Other finding	10
Classroom Teacher Salaries	District did not meet the current expense of education percentage required for payment of classroom teacher salaries	14
Early Retirement Incentive Program	Certification form not in file/incomplete/inaccurate	1
Other State Programs	Financial report/claim not filed/not filed on time	1
	Lack of documentation/records	<u>1</u>
TOTAL STATE FINDINGS		516
FEDERAL		
ARRA	Special Education: Allowable costs/cost principles	1
	Special Education: Period of availability of federal funds	3
	State Fiscal Stabilization Fund: Cash management	1
	State Fiscal Stabilization Fund: Period of availability of federal funds	1
	State Fiscal Stabilization Fund: Procurement and suspension and debarment	1
	State Fiscal Stabilization Fund: Reported revenue erroneous	1
	State Fiscal Stabilization Fund: Sub-recipient monitoring	1

Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
FEDERAL (continued)		
Child Care & Development Block Grant	Eligibility	2
	Expenditures overstated	1
Child Nutrition Cluster–National School Lunch	Activities allowed or unallowed	6
	Eligibility	11
	Allowable costs/cost principles	2
	Lack of documentation/records	1
	Other finding	1
	Procurement and suspension and debarment	3
	Special tests and provisions	7
	Equipment and real property management	1
	Expenditures understated	1
	Reported expenditures do not reconcile to general ledger	1
	Reporting	2
Multiple Federal Programs	Multi-funded positions not supported by time distribution records	3
	Noncompliance with requirements for activities allowed or unallowed	2
	Noncompliance with requirements for allowable costs/cost principles	9
	Other finding	1
	Noncompliance with requirements for cash management	1
	Noncompliance with requirements for procurement and suspension and debarment	3
	Noncompliance with requirements for matching, level of effort, earmarking	1
Noncompliance with requirements for period of availability of federal funds	1	
Head Start	Allowable costs/cost principles	1
	Sub-recipient monitoring	1
School Breakfast Program	Eligibility	2
Other Federal Program	Allowable costs/cost principles	2
	Lack of documentation/records	1
	Reporting	2
	Special tests and provisions	3
	Eligibility	1
	Subrecipient monitoring	2
Special Education	Allowable costs/cost principles	5
	Special tests and provisions	2
Title I–Grants to LEAs	Activities allowed or unallowed	9
	Allowable costs/cost principles	16
	Eligibility	2
	Cash management	9
	Period of availability of federal funds	3
	Special tests and provisions	16
	Procurement and suspension and debarment	4
Expenditures oversatated	1	

Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
FEDERAL (continued)		
Title II, Improving Teacher Quality State Grants	Allowable costs/cost principles	4
Title III, Part A – English Language Acquisition Grants	Earmarking	2
FEMA	Allowable costs/cost principles	1
Safe and Drug-Free Schools	Activities allowed or unallowed	<u>1</u>
TOTAL FEDERAL FINDINGS		159
TOTAL STATE AND FEDERAL FINDINGS		<u>675</u>

Appendix D— Summary of Audit Report Deficiencies

Description	Number of Findings	
	2007-08	2008-09
<u>Management's Discussion and Analysis</u>		
The Management's Discussion and Analysis was not included in the audit report.	1	0
<u>Independent Auditor's Report</u>		
The auditor's report did not identify the supplementary information, including Schedule of Expenditures of Federal Awards.	9	11
The auditor's report did not include an opinion on supplementary information.	36	43
The auditor's report did not reference auditing standards generally accepted in the USA and <i>Government Auditing Standards</i> .	5	0
The introductory paragraph of auditor's report did not clearly identify financial statements covered by auditor's opinion.	1	22
Reference to a separate Report on Compliance and on Internal Control Over Financial Reporting and on Compliance was deficient.	28	4
Reference to a separate Report on Compliance and on Internal Control Over Financial Reporting and on Compliance was not included.	4	4
The report does not reference the required supplementary information (RSI).	3	0
The report does not state that the auditor applied limited procedures to the RSI.	4	1
The auditor's opinion did not state that the financial statements conform with accounting principles generally accepted in the USA.	1	0
A disclaimer of opinion was issued, but did not include sufficient information.	0	1
Qualified opinion due to scope limitation: the explanatory paragraph and/or possible effects on financial statements were not disclosed.	2	1
Subtotal	93	87
<u>Basic Financial Statements</u>		
Governmental entity: Balance Sheet—Governmental Funds was not properly presented.	4	5
Governmental entity: Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities was not properly presented.	4	5
Governmental entity: Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets was not properly presented.	5	6
Governmental entity: Statement of Activities was not properly presented.	2	6
Governmental entity: Statement of Cash Flows—Proprietary Funds was not properly presented.	1	0
Governmental entity: Statement of Changes in Fiduciary Net Assets—Fiduciary Funds was not properly presented.	1	4
Governmental entity: Statement of Fiduciary Net Assets—Fiduciary Funds was not properly presented.	1	0
Governmental entity: Statement of Net Assets was not properly presented.	0	2

Appendix D (continued)

Description	Number of Findings	
	2007-08	2008-09
<u>Basic Financial Statements</u> (continued)		
Governmental entity: the Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds was not properly presented.	4	6
Governmental entity: the Statement of Revenues, Expenses, and Changes in Fund Net Assets—Proprietary Funds was not properly presented.	0	1
Non-profit entity: the Statement of Activities was not properly presented.	12	8
Non-profit entity: the Statement of Cash Flows was not properly presented.	0	33
Non-profit entity: the Statement of Financial Position was not properly presented.	1	2
Subtotal	35	78
<u>Notes to the Financial Statements</u>		
All component units and/or joint powers authorities (JPAs) related to the entity were not identified.	2	0
Material prior period restatements or adjustments were not adequately disclosed.	0	1
The notes did not adequately describe criteria used in determining whether other entities should be considered component units of the reporting entity.	9	4
The notes did not include adequate disclosure of capital assets and depreciation.	1	0
The notes did not include adequate disclosure with respect to long-term debt.	22	42
Other post-employment benefits were not adequately disclosed.	1	1
The pension obligations were not adequately disclosed.	6	21
The reserves were not appropriate, and/or their nature and purpose were not clear.	21	2
Subtotal	62	71
<u>Required Supplementary Information</u>		
The Schedule of Budgetary Comparison Data for General Fund and/or Major Special Revenue Funds was not included.	7	1
<u>Supplementary Information Section</u>		
A note stating that the LEA received funding for increasing instructional time was not included.	5	1
Available reserves are below minimum required and management's plans were not addressed, and/or going concern note was not included.	4	2
The Excess Sick Leave note was not included.	5	0
The Local Education Agency Organization Structure description was not included or was deficient.	52	17
The Reconciliation of Annual Financial and Budget Report with Audited Financial Statements was not included.	4	1
The Schedule of Average Daily Attendance for charter school did not include classroom-based ADA.	148	26
The Schedule of Average Daily Attendance was deficient.	24	14

Appendix D (continued)

Description	Number of Findings	
	2007-08	2008-09
<u>Supplementary Information Section</u> (continued)		
The Schedule of Average Daily Attendance was not included.	1	0
The Schedule of Charter Schools was not included or was deficient.	6	11
The Schedule of Expenditures of Federal Awards was deficient.	45	42
The Schedule of Expenditures of Federal Awards was not included.	1	0
The Schedule of Financial Trends and Analysis was not included or the schedule was deficient.	10	5
The Schedule of Instructional Time did not contain all of the required information.	28	18
The Schedule of Instructional Time did not state whether the district complied with the instructional minutes and days provisions.	4	5
The Schedule of Instructional Time indicated noncompliance, but no finding was included in report.	4	4
The Schedule of Instructional Time was not included.	5	1
The STRS early retirement note was not included, or disclosure was deficient.	3	10
Subtotal	349	157
<u>Government Auditing Standards (GAS) Report</u>		
The report did not include a statement regarding the auditee's response to findings.	75	48
The report did not state that the audit was conducted in accordance with auditing standards generally accepted in the USA and <i>Government Auditing Standards</i> .	2	0
The Report on Compliance and Other Matters did not include a statement regarding test results.	5	7
The Report on Compliance and Other Matters did not include a statement that the auditor performed tests of compliance.	0	1
The Report on Internal Control and Compliance did not reference the Independent Auditor's Report.	2	3
The Report on Internal Control Over Financial Reporting and on Compliance and Other Matters was not included.	2	1
The Report on Internal Control Over Financial Reporting was deficient.	20	45
Subtotal	106	105
<u>Management Letter</u>		
Management letter was not included in audit report.	25	14
<u>Single Audit Report</u>		
The report did not include a statement regarding the auditee's response to findings.	5	4
The Report on Compliance With Requirements Applicable to Each Major Federal Program was deficient.	2	3
The Report on Internal Control Over Compliance was deficient.	12	8

Appendix D (continued)

Description	Number of Findings	
	2007-08	2008-09
<u>Single Audit Report (continued)</u>		
The Report on Major Program Compliance and on Internal Control Over Compliance (OMB Circular A-133) was not included.	2	0
The Report on Major Program Compliance and on Internal Control Over Compliance did not include a statement regarding legal restrictions on report distribution.	1	0
Subtotal	22	15
<u>State Compliance Report</u>		
The Auditor's Report on State Compliance did not include a statement regarding legal restrictions on report distribution.	3	1
The Auditor's Report on State Compliance was deficient.	47	89
The Auditor's Report on State Compliance was not included.	0	1
The Auditor's Report on State Compliance cited the incorrect reference for the K-12 Audit Guide.	3	6
Subtotal	53	97
<u>Findings and Recommendation Section</u>		
The audit finding was not coded with the correct five-digit number.	6	6
Auditee's corrective action plan to eliminate noncompliance was not included.	8	1
Federal Program Finding(s): noncompliance was reported; however, the finding(s) did not include sufficient information.	5	24
Federal Program Finding(s): questioned costs and/or how they were calculated not included.	5	20
The major federal programs were not identified.	3	2
The Schedule of Findings and Questioned Costs was not included.	9	4
The Schedule of Prior Audit Findings was not included.	13	2
State Program Finding(s): financial impact not quantified in terms of dollars or ADA.	35	26
State Program Finding(s): noncompliance was reported; however, the finding(s) did not include sufficient information.	47	26
Sufficient information for judging the prevalence and consequences of noncompliance was not included.	2	2
The Summary of Auditor's Results was deficient.	56	50
The Summary of Auditor's Results was not included.	1	0
Subtotal	190	163
<u>Other</u>		
The audit report did not adequately disclose fraudulent or illegal acts; and/or the auditor's opinion was not modified.	0	2
Auditor's reports did not include a manual or printed signature of the auditor's firm and date of the report.	0	4
Subtotal	0	6
Total number of findings	943	794

Appendix E— American Recovery and Reinvestment Act (ARRA)

The American Recovery and Reinvestment Act of 2009—abbreviated ARRA and 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 so the public can track the Recovery funds.

As of May 2010, the U.S. Department of Education reported that approximately \$84 billion in Education Recovery Act grants have been awarded nationwide. Some of the programs funded through the Education 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.

As of May 2010, \$5.47 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.

As of May 2010, \$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.

As of May 2010, \$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.

As of May 2010, \$71.57 million in Education Technology Grants had been awarded to California.

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