

INTERIM ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS

**Report to the State
Superintendent of Public Instruction**

For the Period of July 1, 2020, through June 30, 2021



BETTY T. YEE
California State Controller

June 2022



BETTY T. YEE
California State Controller

June 30, 2022

The Honorable Tony Thurmond
State Superintendent of Public Instruction
California Department of Education
P.O. Box 944272
Sacramento, CA 94244

Dear Superintendent Thurmond:

I am pleased to present the Interim Annual Financial Report of California K-12 Schools for fiscal year (FY) 2020-21. This report summarizes the financial and program compliance status of the state's school districts, county offices of education, and charter schools for FY 2020-21, unless otherwise specified. It also complies with California Education Code section 14508.

Due to the COVID-19 pandemic, all California local educational agencies received an automatic extension of the due date for submission of their annual audit reports. Per California Education Code section 41020(h)(2), the due date was extended from December 15, 2021 to January 31, 2022.

This interim report was prepared based on a limited number of annual audit reports received and reviewed as of May 16, 2022. As of that date, we received 1,840 out of 2,056 expected audit reports. This report summarizes financial results of 443 audit reports.

We anticipate issuing a final K-12 Annual Financial Report of California Schools by February 28, 2023, after all the local educational agencies' reports for FY 2020-21 are received and reviewed. The revised report will present more accurate summarized information about the financial and program compliance status of the state's school districts, county offices of education, and charter schools for fiscal year FY 2020-21, unless otherwise specified.

Please direct any comments regarding the content of the report to Chief Operating Officer Kathleen Webb at (916) 552-8080.

Sincerely,

Original signed by

BETTY T. YEE

Contents

Executive Summary	1
Introduction	3
Financial Indicators	
Overview	4
Interim Reporting	4
Deficit Spending	6
Emergency Apportionments	6
General Fund Revenues and Expenditures	7
Debt Issuance	8
Lottery Revenues	9
Program Compliance	
Overview	10
Compliance Findings	10
County Offices of Education Audit Resolution Processes	11
Quality Control	
Overview	12
Audit Report Certifications	12
Reporting Deficiencies	13
On-time Submissions	13
Average Audit Cost per Average Daily Attendance	14
Quality Control Reviews	14
Appendices	
Appendix A—Audit Report and Interim Report Disclosures of Impending Financial Problems	A-1
Appendix B—Local Education Agencies Filing Qualified or Negative Interim Reports ..	B-1
Appendix C—Interim Summary of Audit Report Compliance Findings	C-1
Appendix D—Interim Summary of Audit Report Deficiencies	D-1

Executive Summary

The State Controller's Office (SCO) has broad authority to oversee state and federal funding of California's public schools from kindergarten through the 12th grade (K-12). The SCO's goal is to promote greater fiscal accountability by local education agencies (LEAs) (school districts, county offices of education [COEs], and charter schools) and to function as the independent protector of taxpayer dollars.

This oversight responsibility includes reviewing annual LEA audit reports, maintaining a database with financial and statistical data on LEA 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 *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* (K-12 Audit Guide) to the Education Audit Appeals Panel, and conducting financial and compliance audits of various LEAs.

Most of the information used to prepare this report is compiled from annual audit reports prepared for individual LEAs by independent certified public accountants (CPAs) for fiscal year (FY) 2020-21. Due to the COVID-19 pandemic, and pursuant to California Education Code (EC) section 41020(h)(2), all California LEAs received an automatic extension of the annual audit report due date. Reports originally required to be submitted by December 15, 2021, were instead due by January 31, 2022.

This report summarizes financial results of 443 of 2,056 (22%) expected audit reports that were received and reviewed as of May 16, 2022. Additional data was obtained from interim financial report certifications submitted by LEAs for FY 2021-22. Information related to the emergency loan apportionments was obtained from various sources, including the California Infrastructure and Economic Development Bank (I-Bank).

This FY 2020-21 report, which is based on available data, contains the following key preliminary findings:

- A total of 10 LEAs engaged in multi-year deficit spending. Although some LEAs may legitimately need to engage in multi-year deficit spending (such as for building projects), this practice is often an indication that a district is facing financial difficulties.
- The number of LEAs filing negative or qualified certifications during at least one of the two reporting periods decreased from 56 to 30. In the second reporting period of FY 2021-21, 16 LEAs filed qualified interim financial reports and three LEAs filed negative interim financial reports. Financial difficulties may have a negative impact on these LEAs' educational programs.
- Debt increased by \$2.38 billion to a total of \$14.52 billion, a 20 percent increase from the \$12.14 billion issued in the prior year.

Generally, LEAs issue debt to fund capital improvements, refinance existing debt, or buy land for future use.

- Approximately 18 percent of the compliance findings for FY 2020-21 are related to deficiencies in daily attendance reporting, which is the primary factor in determining the amount of funding that an LEA receives from the State.
- The LEAs' annual audit reports reviewed to date have disclosed six audit findings pertaining to the Unduplicated Local Control Funding Formula (LCFF) Pupil Counts compliance requirement.
- To date, we have rejected six audit reports.

We will revise these preliminary findings by February 28, 2023, after all the LEAs' reports for FY 2020-21 are received and reviewed.

Introduction

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

SCO is also responsible for financial oversight of LEAs (school districts, charter schools, and COEs). Beginning with FY 2005-06, EC section 47634.2(d) rendered charter schools subject to audits, pursuant to EC section 41020. Audits must be conducted in accordance with Title 5, California Code of Regulations, section 19810 et seq., which requires that the K-12 Audit Guide be followed.

Each section of this report specifies the type of LEA being reported on, and the fiscal year for which the data was obtained.

In accordance with California law, SCO's responsibilities include:

- Developing, in consultation with the California Department of Finance, the California Department of Education (CDE), and other school representatives, an annual audit guide that prescribes financial statements and other information that should be included in each LEA's audit report. The K-12 Audit Guide provides guidance to independent auditors who conduct LEA audits;¹
- Reviewing each LEA's audit report submitted to the state and performing the related follow-up actions, including compliance audits;²
- Tracking notifications from the school districts that identify substantial fiscal problems at interim reporting periods;
- Conducting annual financial and compliance audits of school districts that receive emergency state apportionment loans;
- Ensuring that satisfactory arrangements for an annual audit have been made for each LEA;
- Performing quality control reviews of independent auditors who conduct annual audits of LEAs; and
- Compiling pertinent data and reporting annually to the California State Legislature and CDE.

¹ EC section 14502.1(a) states, in part:

. . . The Controller, in consultation with the Department of Finance, the State Department of Education, and representatives of the California School Boards Association, the California Association of School Business Officials, the California County Superintendents Educational Services 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 [change] 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 EC section 14501 provides that compliance audits are conducted to determine whether state and federal program funds have been properly disbursed and expended as required by laws and regulations.

Financial Indicators

Overview

California Education Code places school district finances under the control of COEs and CDE. The law protects the public's interest in education by giving COEs specific responsibility for fiscal oversight of school districts within their jurisdictions.

Key financial indicators representing the financial health of LEAs are presented in this section of the report. Data was obtained from interim financial report certifications submitted by school districts for FY 2021-22.

Interim Reporting

School districts in California are required to file interim reports certifying their financial health to the governing board of the district and COE. These interim reports must be completed twice per 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 (SSPI) and be based on Standards and Criteria for Fiscal Stability adopted by the State Board of Education pursuant to EC 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 COE when certifying the district's fiscal stability on the interim report:

Positive – A school district or COE that will meet its financial obligations for the current fiscal year and subsequent two fiscal years.

Qualified – A school district or COE that may not meet its financial obligations for the current fiscal year or subsequent two fiscal years.

Negative – A school district or COE 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 SCO and to the SSPI.

The number of LEAs that filed qualified or negative certifications decreased

For FY 2021-22, a total of 26 of the 1,002 LEAs required to file interim reports filed a qualified or negative certification for the first-period interim report; 23 certifications were qualified, and three were negative. Of these 26 LEAs, 11 filed a qualified second-period interim report, three filed a negative second-period interim report, and 12 LEAs were able to take corrective action. However, four other LEAs that had filed a positive first-interim certification subsequently filed qualified second-period interim

reports, resulting in a total of 14 qualified and three negative certifications for the second-interim reporting period (Figure 1). Thus, 30 LEAs reported qualified or negative certifications for at least one of the two periods (Appendix A), and four LEAs remained on the list from the prior year. LEAs that file qualified or negative interim reports for two or more years are monitored closely by SCO through continuous contact with CDE.

The most common causes of fiscal problems cited in the 30 qualified or negative certifications (Appendix B) were:

- Other Expenditures (projected operating expenditure changes): 30 LEAs (100 percent);
- Other Revenues (projected operating revenue changes): 29 LEAs (97 percent);
- Deficit Spending: 29 LEAs (97 percent);
- Contributions from unrestricted to restricted sources, or transfers to or from the General Fund to cover operating deficit, have changed since budget adoption by more than \$20,000 and more than five percent for any of the current or two subsequent fiscal years: 26 LEAs (87 percent); and
- Projected LCFF revenue for any of the current or two subsequent fiscal years has changed by more than two percent since budget adoption: 24 LEAs (80 percent).

Figure 1

Second-Period Interim Report Certifications Five-Year History by Fiscal Year					
Certification	2017-18	2018-19	2019-20	2020-21	2021-22
Positive	975	970	958	958	984
Qualified	26	26	40	40	15
Negative	2	6	4	4	3
Totals	<u>1,003</u>	<u>1,002</u>	<u>1,002</u>	<u>1,002</u>	<u>1,002</u>

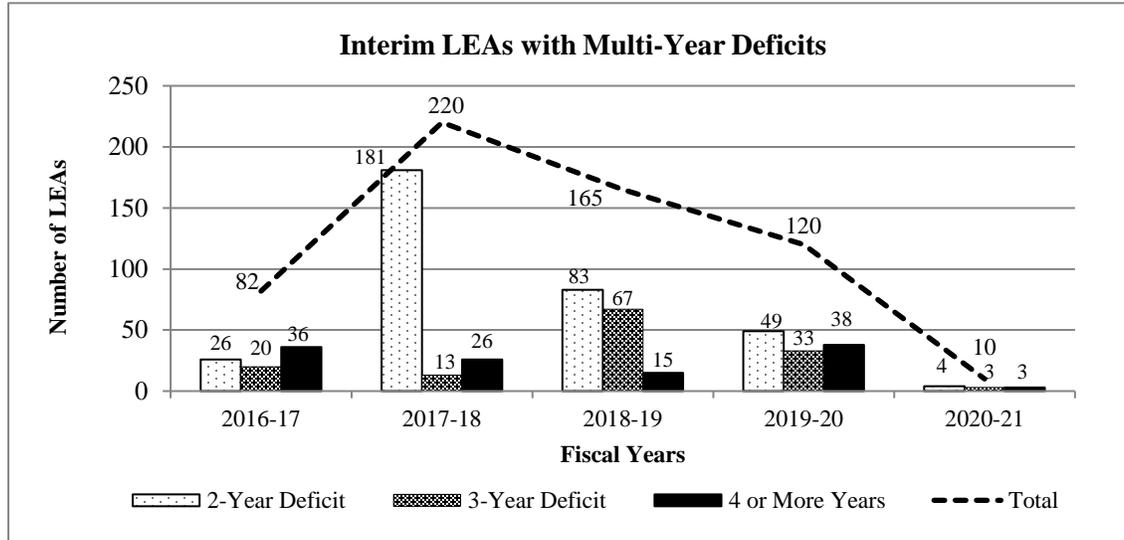
*See Appendixes A and B

Deficit Spending

LEA multi-year deficit spending decreased

Based on available data for FY 2020-21, the overall number of LEAs relying on multi-year deficit spending decreased from 120 to 10 (Figure 2). Deficit spending patterns are monitored closely by COEs and CDE to determine whether LEAs 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 SSPI 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.

The emergency loans are designed to provide an advance of apportionments owed to the districts from the State School Fund. EC sections 41329.50 through 41329.54 and 41329.56 specify the requirements for emergency apportionment financing.

Oakland Unified School District (USD) and South Monterey County Joint Union High School District (JUHSD) (formerly King City JUHSD) 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 USD is considered an interim loan and must be repaid with the proceeds from lease financing.

Inglewood USD received a General Fund emergency loan in November 2012. Subsequently, Assembly Bill 86 (Chapter 48) was enacted during FY 2012-13 to authorize the Inglewood USD, through CDE, to request cash flow loans up of to \$55 million from the General Fund. The total loan balance is \$20,975,274 as of June 30, 2022.

Annual payment on the initial emergency loan for the USD is due in June. Vallejo City USD received two emergency loans from the General Fund,

with payments due in June and August. As of June 30, 2022, the outstanding General Fund loan balances for Oakland USD, Vallejo City USD, and Inglewood USD ranged from \$6.4 million to \$21 million, as shown in Figure 3.

The lease financing is made available by I-Bank, and the term cannot exceed 20 years. I-Bank issues bonds to reimburse the General Fund for all or a portion of the emergency apportionment loans made to these school districts. The principal payments for Vallejo City USD, Oakland USD, and South Monterey County JUHSD bonds are payable annually on August 15. As of June 30, 2022, the outstanding lease revenue bond balances ranged from \$4.8 million to \$10.2 million, as shown in Figure 3.

Figure 3

School Districts with Outstanding Loans (in millions)							
Fiscal Year	School District	Initial Loan (General Fund) ¹			Lease Revenue Bonds (I-Bank) ²		
		Loan Amount	Outstanding Balance	Final Repayment Date	Amount Issued	Outstanding Balance	Final Repayment Date
2002-03	Oakland Unified	\$100	\$10	June 29, 2026	\$60	\$10.2	August 15, 2023
2003-04	Vallejo City Unified	\$60	\$6.4	August 14, 2024	\$21	\$4.8	August 15, 2024
2009-10	South Monterey County JUHSD ³	\$2	-	April 14, 2010	\$14	\$7.8	August 15, 2029
2012-13	Inglewood Unified	\$29	\$21	November 1, 2034	-	-	-

¹ General Fund school loans balance information was obtained from the SCO, Local Government Programs and Services Division

² Lease revenue bonds information was obtained from the I-Bank.

³ King City JUHSD was renamed South Monterey County JUHSD effective July 1, 2011.

General Fund Revenues and Expenditures

Based on available data for FY 2020-21, LEA General Fund revenues exceeded expenditures by \$1.19 billion (Figure 4).

Figure 4

Interim LEA General Fund Revenues and Expenditures by Fiscal Year (in billions)					
Fiscal Year	2016-17	2017-18	2018-19	2019-20	2020-21
Revenues	\$ 68.56	\$ 77.97	\$ 85.40	\$ 84.29	\$ 14.18
Expenditures	(67.22)	(77.04)	(83.22)	(82.72)	(12.99)
Surplus/(Deficit)	\$ 1.34	\$ 0.93	\$ 2.18	\$ 1.57	\$ 1.19

The fund balance or surplus for all LEAs combined totaled \$4.31 billion at the end of FY 2020-21, a decrease of \$16.94 billion from the prior year's total of \$21.24 billion. Federal revenues decreased by \$3.18 billion from the prior fiscal year (\$1.52 billion in FY 2020-21, compared to \$4.7 billion in FY 2019-20). As part of the total fund balance, LEAs are required to maintain reserves as a defense against economic uncertainties. CDE issues guidelines regarding the amount of reserves each district should maintain based on its total average daily attendance (ADA).

Debt Issuance

Generally, LEAs issue debt 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 LEAs to issue debt in order to finance current operations.

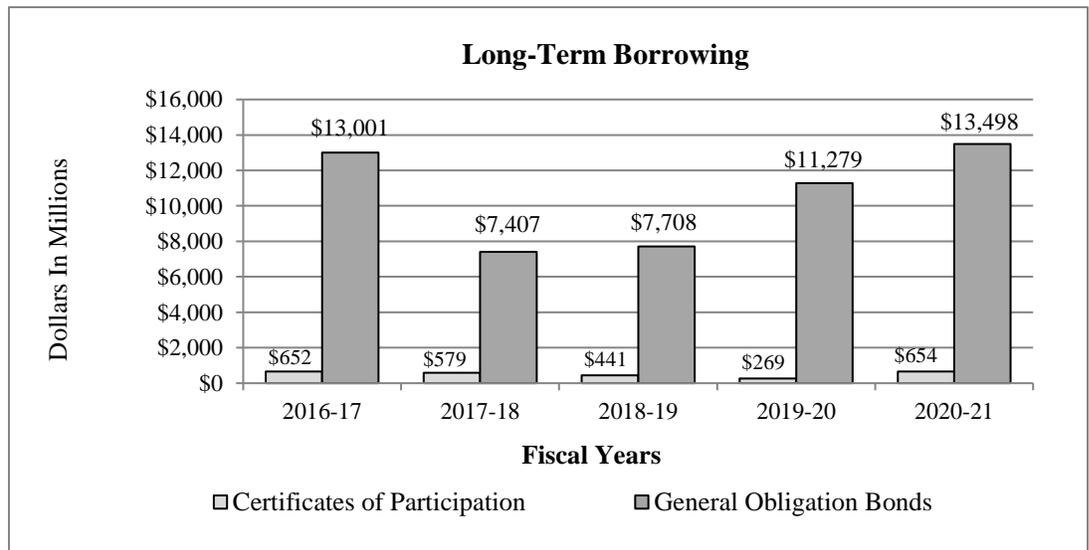
LEA debt issuance increased

Based on available data for FY 2020-21, LEAs issued \$14.53 billion in debt, an increase of \$2.39 billion (20 percent) over the \$12.14 billion issued in the prior year. In FY 2020-21, the total number of LEAs that issued debt decreased by four percent from the prior fiscal year. LEAs issued the following types of debt:

- **General Obligation Bonds (\$13.5 billion, or 93 percent)**—Bonds secured by the full faith and credit of the LEA. 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 LEA.
- **Certificates of Participation (\$655 million, or four percent)**—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.
- **Limited Tax Obligation Bonds (\$268 million, or two percent)**—A financing technique that provides long-term financing of capital projects. The bonds are repaid from incremental taxes on property in a redevelopment area.
- **Other Debt Instruments (\$107 million, or one percent)**—Debt instruments that do not fall into any of the categories listed above.

LEAs issued \$14.15 billion in Certificates of Participation and General Obligation Bonds during FY 2020-21, an increase of \$2.61 billion (23 percent) from the \$11.54 billion issued in the prior fiscal year (Figure 5).

Figure 5



LEA financing through Certificates of Participation increased by \$360 million, and financing through General Obligation Bonds increased by \$2.25 billion from the prior year.

General Obligation Bonds accounted for 93 percent of LEA debt issuance in FY 2020-21, as in the prior year. In comparison, Certificates of Participation accounted for four percent of debt issuance in FY 2020-21, a two percent increase from the prior year.

Lottery Revenues

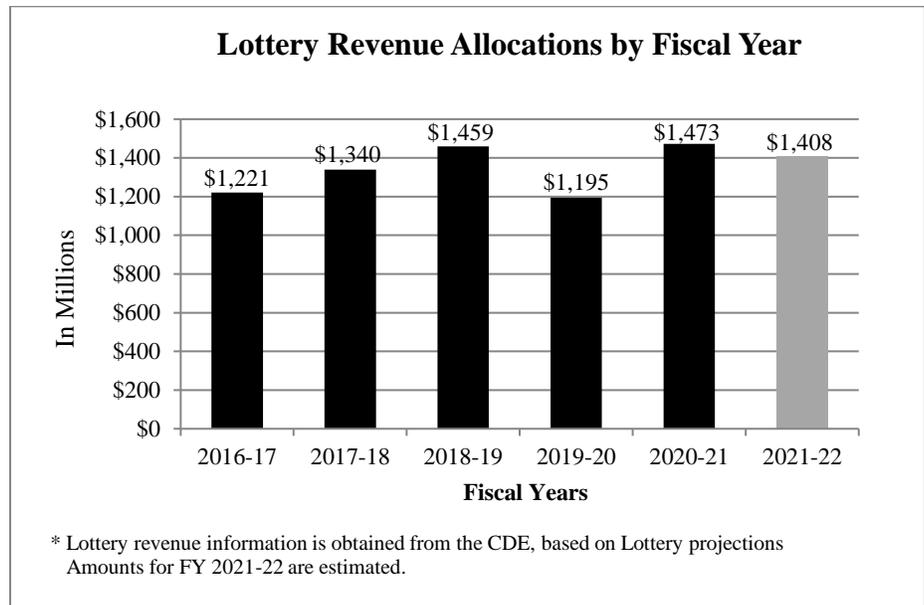
The allocation of California State Lottery (Lottery) revenues to K-12 schools is based on a percentage of total Lottery sales for the year. Under state law (the California State Lottery Act of 1984), a minimum of 34 percent of Lottery sales must be distributed to school districts, community colleges, and other educational agencies. The distribution of this 34 percent between K-12 school districts and community colleges fluctuates annually.

The amount is distributed to each district based on its K-12 ADA. The data regarding sales and allocations are maintained by SCO and the Lottery.

***Lottery revenue
projected to decrease***

Lottery revenue is projected to decrease by 4.41 percent, from \$1,473 million in FY 2019-20 to \$1,408 million estimated for FY 2021-22 (Figure 6).

Figure 6



Program Compliance

Overview

The annual audit reports by CPAs are the primary source of information regarding LEA compliance with state and federal requirements. SCO 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, SCO may conduct compliance audits, if resources permit.

Compliance Findings

Independent auditors determine whether 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.

Due to the COVID-19 pandemic, and pursuant to EC section 41020(h)(2), all California LEAs received an automatic extension of the annual audit report due date. Reports originally required to be submitted by December 15, 2021, were instead due by January 31, 2022.

This report summarizes financial results of 443 of 2,056 (22%) expected audit reports that were received and reviewed as of May 16, 2022. We will revise these preliminary findings by February 28, 2023, after all of the LEAs' reports for FY 2020-21 are received and reviewed.

The FY 2020-21 LEA audits reports submitted by CPAs as of May 16, 2022, reported 65 compliance findings (Appendix C).

Some of the issues identified in the compliance findings may have a fiscal impact on LEA operations, as they may result in a loss of state and federal funding. Of the 65 compliance findings, 61 (96 percent) pertained to state programs and requirements and four (four percent) pertained to federal programs and requirements (Figure 7).

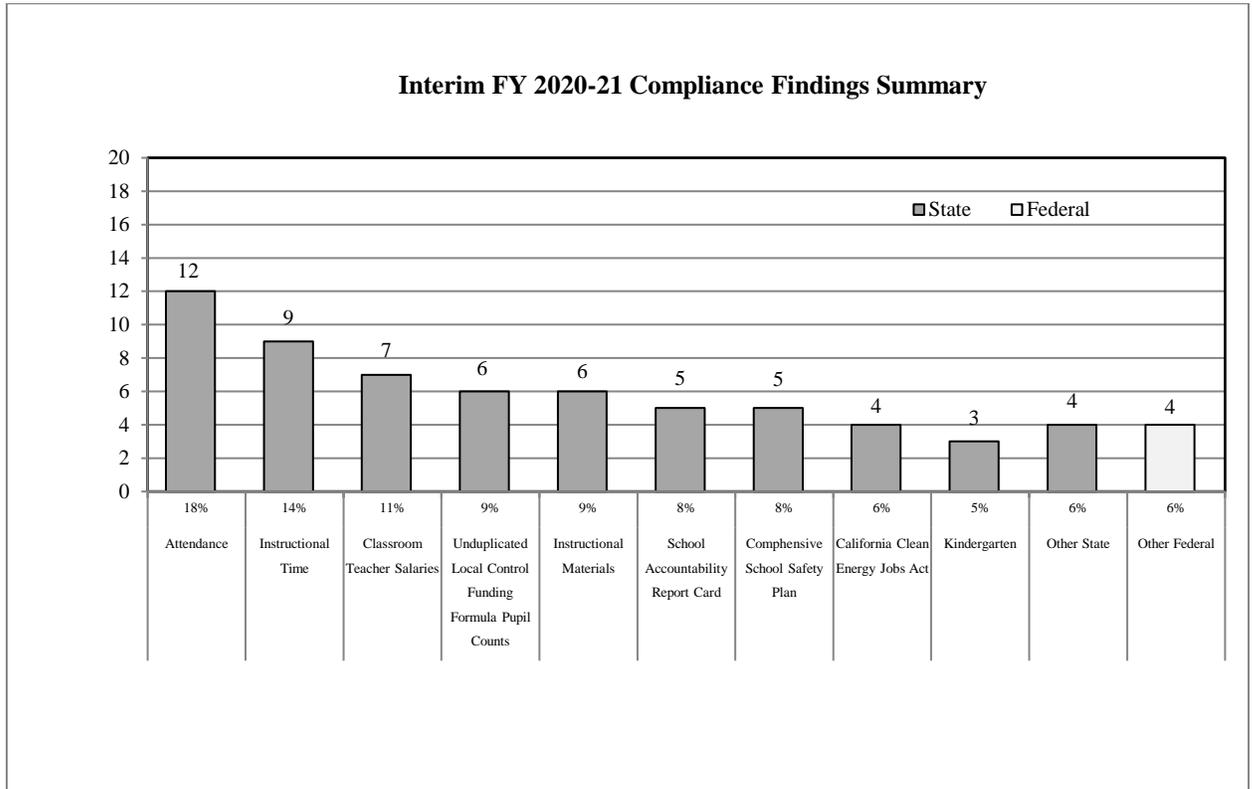
Attendance-related audit findings accounted for 18 percent of all compliance findings noted to date. The LEA audit reports disclosed 12 attendance-related findings. The majority of the attendance-related findings were attributed to lack of documentation or records, and inaccurate or incomplete documentation.

The audit reports also disclosed nine findings pertaining to Instructional Time, which accounted for 14% of all compliance findings. The majority of the findings were attributed to instructional minutes requirements not being met.

There were seven findings pertaining to the Classroom Teacher Salaries Program, which accounted for 11% of all compliance findings. All findings were the result of a district's failure to meet the current expense

of education percentage required for payment of classroom teachers' salaries.

Figure 7



County Offices of Education Audit Resolution Processes

EC section 41020(n) provides that SCO shall annually select a sample of COEs in order to perform a follow-up review of the audit resolution processes. The scope of the reviews is limited to determining whether each COE followed its audit resolution process, resolved all of the audit findings, followed up on the district’s corrective action plans, and notified the SSPI and the SCO of the results.

During FY 2021-22, SCO performed a review of the audit resolution processes of one COE and found that the COE followed its audit resolution processes for FY 2017-18 and FY 2018-19. However, the audit resolution process was deficient because the COE did not identify LCFF-related audit findings or revised audit findings for review and resolution.

Quality Control

Overview

SCO reviews and certifies the annual independent audit reports submitted by each LEA for compliance with audit guidelines set forth in the K-12 Audit Guide. This authority is provided by EC section 14504.

Audit Report Certifications

SCO determines whether audit reports conform to reporting provisions of the K-12 Audit Guide and notifies each LEA, independent auditor, and the SSPI whether a report has been accepted or rejected, based on conformity with those provisions.

For FY 2020-21, SCO accepted 68 percent of the audit reports reviewed as of May 16, 2022; the remaining 32 percent were rejected upon initial review. EC section 14505 provides that LEAs withhold 10 percent of the audit fee until SCO certifies that the audit report conforms to the reporting provisions of EC section 14503(a). In addition, if an independent auditor has had a report rejected (and has not subsequently corrected it) for the same LEA for two consecutive years, SCO may refer the independent auditor to the California Board of Accountancy for professional review.

Number of rejected audit reports decreased

Upon initial review, SCO certified 303 (16 percent) of the 1,840 audit reports submitted by LEAs for FY 2020-21 and rejected 140 (Figure 8). The remaining 1,397 reports are in various stages of the report certification process.

Figure 8

Interim Number and Percent of Rejected LEA Audit Reports			
Fiscal Year	Reports Submitted	Reports Rejected	Percent Rejected
2016-17	1,896	390	21%
2017-18	1,926	596	31%
2018-19	1,951	464	24%
2019-20	1,892	214	11%
2020-21	1,840	140	8%

Reporting Deficiencies

Based on FY 2020-21 independent auditor’s reports received and reviewed as of May 16, 2022, SCO identified 260 reporting deficiencies in the independent auditors’ reports of LEAs, a decrease of 1,384 from the prior year (Figure 9).

Reporting deficiencies decreased

Figure 9

	Fiscal Years	
	2019-20	2020-21
Auditor’s Report on the Financial Statements	26	42
Management’s Discussion and Analysis	-	-
Basic Financial Statements	23	5
Notes to the Financial Statements	25	9
Required Supplementary Information	6	2
Supplementary Information Section	98	37
Schedule of Expenditures of Federal Awards	10	22
Government Auditing Standards Report	960	88
Single Audit Report	30	5
State Compliance Report	216	29
Findings and Recommendations Section	225	21
Other	9	-
Total Number of Reporting Deficiencies	1,628	260

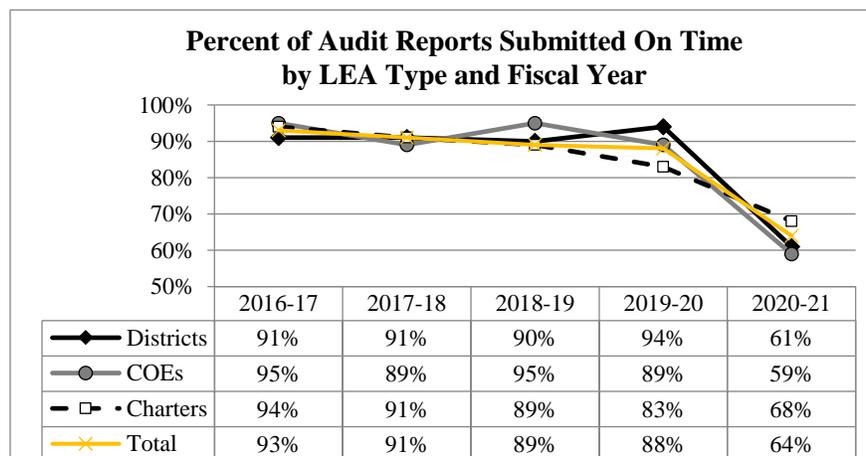
The Government Auditing Standards Report, the Auditor’s Report on the Financial Statements, and the Supplementary Information Section of the independent audit reports of LEAs show the largest number of reporting deficiencies.

On-time Submissions

Annual audit reports submitted on time decreased

Audit reports for the preceding fiscal year must be filed with SCO, CDE, and the county superintendent of schools by January 31, 2022. Filing deadline extensions may be granted, but only under extraordinary circumstances.

Figure 10

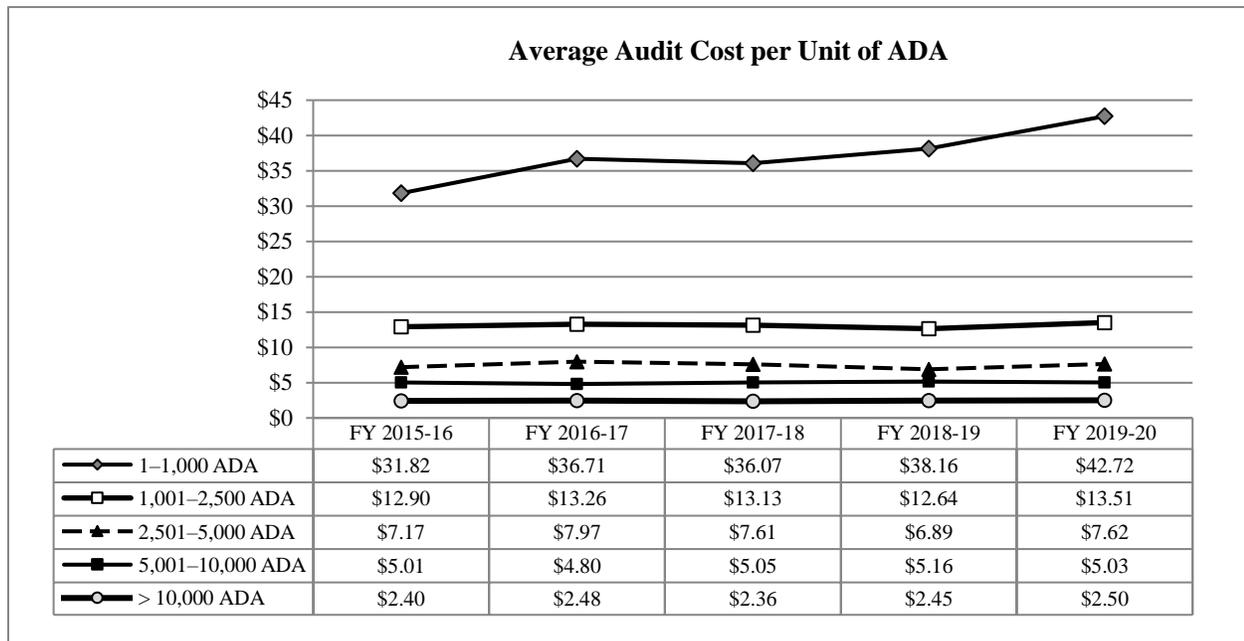


The percentage of school district, COE, and charter annual audit reports submitted by the deadline decreased from the prior year (Figure 10). A total of 1,323, or 64 percent, of the 2,056 required LEA reports were received by the January 31, 2022 deadline. For FY 2020-21, there were 2,320 LEAs. Some of the LEAs, primarily charter schools, were combined for reporting purposes, resulting in 2,056 required LEA reports.

Average Audit Cost per Average Daily Attendance

Each year, SCO asks each COE to provide audit contract information for the COE and all LEAs under its jurisdiction. SCO maintains a database of information pertaining to audit contracts between LEAs and independent auditors. From that database, SCO determined the total audit costs and the cost per unit of ADA for LEA annual audits. The COEs provided FY 2020-21 audit contract information for 15 percent (300 of 2,000) and FY 2019-20 audit contract information for 25 percent (494 of 1,999) of the COEs and LEAs. In FY 2020-21, LEAs were not required to report ADA information; therefore, Figure 11 does not include FY 2020-21 data.

Figure 11



Quality Control Reviews

EC section 14504.2 expanded the SCO’s quality control review function to include LEAs that have received a negative interim report certification and school districts that have a going concern issue, as determined by the county superintendent of schools.

EC section 41020(f)(1) requires SCO 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 independent auditors are following generally accepted auditing standards and government

auditing standards, and are reporting findings regarding financial statement issues and compliance with state and federal laws in their annual independent auditor's reports.

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

- Generally Accepted Government Auditing Standards;
- Generally Accepted Auditing Standards;
- K-12 Audit Guide;
- Office of Management and Budget Circular A-133; and/or Title 2, Code of Federal Regulations, Part 200 (Uniform Guidance), as applicable; and
- California Business and Professions Code.

The 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 conclusion is that the independent auditor complied with auditing standards and state and federal requirements.
- If the audit was performed in accordance with the majority of the standards and requirements, the SCO conclusion is that the independent auditor complied with the majority of auditing standards and state and federal requirements.
- If the audit was performed in accordance with some elements of the standards and requirements, but the majority of standards and requirements were not met, the SCO conclusion is that the independent auditor complied with some elements of the standards and requirements, but that the majority of auditing standards and state and federal requirements were not met.
- If the audit was not performed in accordance with the standards and requirements, the SCO conclusion is that the independent auditor did not comply with auditing standards and state and federal requirements. SCO may refer the independent auditor to the California Board of Accountancy for a follow-up review.

In FY 2021-22, SCO issued eight quality control review reports related to LEAs. The quality control reviews found deficiencies in the following areas:

- Generally Accepted Auditing Standards Requirements
 - Audit working papers were not assembled in a timely manner; and

- Management representation letter date did not reflect the same date as the auditor's report.
- State Compliance
 - Several required state compliance procedures were not performed or documented.

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	2021-22 Interim Report		2020-21 Interim Report Second
			First	Second	
Alameda County					
1. Hayward Unified	N/A	N/A	Q	Q	
2. Oakland Unified	N/A	N/A	Q	Q	Q
3. San Lorenzo Unified	N/A	N/A	Q	Q	Q
Butte County					
4. Bangor Union Elem.	N/A	N/A	Q	Q	
Calaveras County					
5. Calaveras Unified	N/A	N/A			Q
Contra Costa County					
6. Mt. Diablo Unified	N/A	N/A			Q
7. Pittsburg Unified	N/A	N/A	Q		
8. West Contra Costa Unified	N/A	N/A	N	N	
El Dorado County					
9. Gold Trail Union Elem.	N/A	N/A			Q
Humboldt County					
10. Loleta Union Elem.	N/A	N/A	N	N	
Kern County					
11. Belridge Elem.	N/A	N/A			N
Los Angeles County					
12. Compton Unified	N/A	N/A	Q		Q
13. Duarte Unified	N/A	N/A			Q
14. Eastside Union Elem.	N/A	N/A	Q	Q	
15. Gorman Jt.	N/A	N/A		Q	
16. Los Angeles Unified	N/A	N/A	Q		
17. Lynwood Unified	N/A	N/A	Q	Q	
18. San Gabriel Unified	N/A	N/A	Q		
19. San Gabriel Valley ROP	N/A	N/A	Q	Q	
20. Temple City Unified	N/A	N/A	Q		

Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2021-22 Interim Report		2020-21 Interim Report Second
			First	Second	
Marin County					
21. Sausalito Marin City Elem.	N/A	N/A	Q	Q	
Placer County					
22. Auburn Union Elem.	N/A	N/A	Q	Q	
Sacramento County					
23. Elverta Jt. Elem.	N/A	N/A	N		
24. Sacramento City Unified	N/A	N/A	Q	N	N
San Benito County					
25. Hollister Elem.	N/A	N/A	Q		
San Diego County					
26. Bonsall Unified	N/A	N/A	Q		
27. Oceanside Unified	N/A	N/A	Q	Q	Q
28. San Marcos Unified	N/A	N/A	Q	Q	Q
29. South Bay Union	N/A	N/A			Q
30. Sweetwater Union High	N/A	N/A			Q
San Francisco County					
31. San Francisco COE	N/A	N/A			Q
32. San Francisco Unified	N/A	N/A			Q
Santa Clara County					
33. Alum Rock Union Elem.	N/A	N/A			Q
34. Mt. Pleasant Elem.	N/A	N/A	Q		
Siskiyou County					
35. Montague Elem.	N/A	N/A		Q	
36. Weed Union Elem.	N/A	N/A	Q	N	
Solano County					
37. Dixon Unified	N/A	N/A			Q
38. Vallejo City Unified	N/A	N/A	Q	Q	
Sonoma County					
39. Cotati-Rohnert Park Unified	N/A	N/A		Q	
40. Old Adobe Union Elem.	N/A	N/A		Q	
41. Santa Rosa City Schools	N/A	N/A	Q		

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

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

County School District/County Office	1st/2nd Certification	Analysis of Key Indicators for Financial Difficulties								
		Other Expenditures ¹	Deficit Spending ²	Other Revenues ³	Contributions ⁴	LCFF Revenue ⁵	Average Daily Attendance ⁶	Enrollment ⁷	Salaries and Benefits ⁸	Declining Enrollment ⁹
Alameda County:										
1. Hayward Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
2. Oakland Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
3. San Lorenzo Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
Butte County:										
4. Bangor Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
Contra Costa County:										
5. Pittsburg Unified	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
6. West Contra Costa Unified	N / N	✓	✓	✓	✓	✓	✓	✓	✓	✓
Humboldt County:										
7. Loleta Union Elem.	N / N	✓	✓	✓	✓	✓	✓	✓	✓	✓
Los Angeles County:										
8. Compton Unified	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
9. Eastside Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
10. Gorman Jt.	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
11. Los Angeles Unified	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
12. Lynwood Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
13. San Gabriel Unified	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
14. San Gabriel Valley ROP	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
15. Temple City Unified	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
Marin County:										
16. Sausalito Marin City Elem.	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
Placer County:										
17. Auburn Union Elem.	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sacramento County:										
18. Elverta Jt. Elem.	N / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
19. Sacramento City Unified	Q / N	✓	✓	✓	✓	✓	✓	✓	✓	✓
San Benito County:										
20. Hollister Elem.	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	□
San Diego County:										
21. Bonsall Unified	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
22. Oceanside Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
23. San Marcos Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
Santa Clara County:										
24. Mt. Pleasant Elem.	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓
Siskiyou County:										
25. Montague Elem.	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
26. Weed Union Elem.	Q / N	✓	✓	✓	✓	✓	✓	✓	✓	✓
Solano County:										
27. Vallejo City Unified	Q / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sonoma County:										
28. Cotati-Rohnert Park Unified	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
29. Old Adobe Union Elem.	P / Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
30. Santa Rosa City Schools	Q / P	✓	✓	✓	✓	✓	✓	✓	✓	✓

Nine key indicators for financial difficulties are as follows:

- ¹ 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.
- ² Unrestricted deficit spending has exceeded the standard in any of the current or two subsequent fiscal years.
- ³ Projected operating revenues (e.g., federal, other state, other local) for the current and two subsequent fiscal years changed by more than 5% since budget adoption or first interim.
- ⁴ Contributions from unrestricted to restricted resources, or transfers to or from the General Fund to cover operating deficits, changed since budget adoption by more than \$20,000 and more than 5% for any of the current or two subsequent fiscal years.
- ⁵ Projected LCFF revenue for any of the current or two subsequent fiscal years has changed by more than two percent since budget adoption.
- ⁶ Funded ADA for any of the current or two subsequent fiscal years has changed by more than two percent since budget adoption.
- ⁷ Projected enrollment for any of the current or two subsequent fiscal years has not changed by more than two percent since budget adoption.
- ⁸ 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.
- ⁹ Enrollment decreased in both the prior and current fiscal years.

Legend: P=Positive Q=Qualified N=Negative

Appendix C— Interim Summary of Audit Report Compliance Findings

<i>Program</i>	<i>Finding Description</i>	<i>Number of Findings</i>
STATE		
Attendance Requirements	Attendance report does not reconcile to supporting documentation	1
	Attendance report inaccurate/incomplete	1
	Excused absences – problems with verification procedures/documentation	1
	Lack of documentation/records	4
	Minimum day requirements not met	2
	Other Finding	3
Kindergarten	Continuance forms are not maintained and/or properly approved	3
California Clean Energy Jobs Act	Expenditure(s) made for non-qualifying purposes or not in accordance with law	1
	Financial report/claim not filed/not filed timely	3
Child Development	Reported expenditures erroneous/inaccurate	1
Classroom Teacher Salaries	District did not meet the current expense of education percentage required for payment of classroom teacher salaries	7
Comprehensive School Safety Plan	District did not adopt or update its comprehensive school safety plan by March 1	3
	District did not have a comprehensive school safety plan and did not notify CDE by October 15	2

Appendix C (continued)

<i>Program</i>	<i>Finding Description</i>	<i>Number of Findings</i>
STATE (continued)		
Education Protection Account	Funds not properly disbursed or expended as required by law	1
Instructional Materials	Board resolution did not address sufficiency of textbooks/instructional materials	1
	Other finding	1
	Public hearing on instructional materials not held or held after the required time period	4
Instructional Time	Instructional days requirements not met	3
	Instructional minutes requirements not met	5
	Other finding	1
Other State Program	Lack of documentation/records	1
	Other finding	1
School Accountability Report Card (SARC)	Facility Inspection Tool not prepared or missing	1
	SARC information inconsistent with Facility Inspection Tool or local evaluation instrument	4
Unduplicated Local Control Funding Formula Pupil Counts	English Learner students missing eligibility documentation	1
	Free and Reduced Price Meal and/or English Learner pupil counts overstated	2
	Free and Reduced Price Meal students missing eligibility documentation	2
	Other finding	1
TOTAL STATE FINDINGS		61

Appendix C (continued)

<i>Program</i>	<i>Finding Description</i>	<i>Number of Findings</i>
FEDERAL		
Child Nutrition Cluster	Financial report/claim not filed/not filed timely	1
Federal Programs	Equipment and real property management	1
Special Education Cluster	Procurement, suspension, and debarment	1
Title I Grants to LEAs	Matching, level of effort, earmarking	1
TOTAL FEDERAL FINDINGS		4
TOTAL STATE AND FEDERAL FINDINGS ¹		65

¹ Totals are based on data available as of May 16, 2022

Appendix D— Interim Summary of Audit Report Deficiencies

<i>Description</i>	<i>Number of Deficiencies</i>	
	<i>FY 2019-20</i>	<i>FY 2020-21</i>
<u>Auditor’s Report on the Financial Statements</u>		
Auditor’s report did not reference auditing standards generally accepted in the USA and <i>Government Auditing Standards</i> .	0	11
Auditor’s report did not include an opinion on supplementary information.	4	10
Auditor’s report did not identify the supplementary information, including the Schedule of Expenditures of Federal Awards.	2	6
Report did not include a section with the heading “Other Matters.”	1	4
Report did not include all of the elements in the required supplementary information section.	4	3
Introductory paragraph of auditor's report did not clearly identify financial statements covered by auditor’s opinion.	1	2
Auditor’s opinion did not state that the financial statements conform with accounting principles generally accepted in the USA.	3	1
Report did not refer to the required supplementary information.	3	1
Report did not state that the auditor obtained reasonable assurance about whether the financial statements are free from material misstatement.	0	1
Report did not include a statement that an audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management.	0	1
Report did not state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.	0	1
Report did not include a section with the heading “Opinion.”	1	1
Reference to a separate report on internal control over financial reporting and on compliance was not included.	7	0
Subtotal	26	42
<u>Basic Financial Statements</u>		
Governmental entity: Balance Sheet – Governmental Funds was not presented properly.	0	1
Governmental entity: Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds was not presented properly.	3	1
Not-for-profit entity: Statement of Activities was not presented properly.	10	2
Not-for-profit entity: Statement of Cash Flows was not presented properly.	1	1
Governmental entity: Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities was not presented properly.	6	0
Governmental entity: Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position was not presented properly.	1	0
Governmental entity: Statement of Fund Net Position – Proprietary Funds was not presented properly.	0	0
Governmental entity: Statement of Fiduciary Net Position – Fiduciary Funds was not presented properly.	2	0
Subtotal	23	5

Appendix D (continued)

<i>Description</i>	<i>Number of Deficiencies</i>	
	<i>FY 2019-20</i>	<i>FY 2020-21</i>
<u>Notes to the Financial Statements</u>		
Governmental entity: Notes did not include adequate disclosure of long-term liabilities, including a schedule of changes in long-term debt and a statement of debt service requirements to maturity for outstanding long-term debt.	5	5
Governmental entity: Summary of significant accounting policies did not include a description of the government-wide financial statements, noting the exclusion of fiduciary funds.	1	3
Governmental entity: Other post-employment benefits (OPEB) note did not include the OPEB plan description.	7	1
Not-for-profit entity: Summary of significant accounting policies did not include description of the financial statements presentation and basis of accounting.	1	0
Not-for-profit entity: Notes did not include adequate disclosure of capital assets and depreciation, including the method used to compute depreciation.	2	0
Not-for-profit entity: Notes did not include adequate disclosure of debt and other liabilities.	2	0
Governmental entity: OPEB note did not disclose the OPEB plan's fiduciary net position information.	2	0
Governmental entity: Material prior period restatements or adjustments were not adequately disclosed.	1	0
Governmental entity: OPEB note did not include a schedule of changes in the OPEB liability.	1	0
Governmental entity: Summary of significant accounting policies did not include a description of the component units, their relationships to the primary government, and how to obtain separate financial statements for component units.	1	0
Governmental entity: OPEB note did not include the discount rate information.	1	0
Governmental entity: OPEB note did not properly disclose the employer's OPEB liabilities for the period associated with defined benefit OPEB liabilities to employees.	1	0
Subtotal	25	9
<u>Required Supplementary Information</u>		
Schedule of the entity's defined benefit OPEB plan contribution was not included.	6	2
Subtotal	6	2
<u>Supplementary Information Section</u>		
Local Education Agency Organization Structure description was deficient.	44	17
Schedule of Charter Schools was not included.	0	5
Schedule of Instructional Time was not included.	1	3
Schedule of Instructional Time did not contain all the required information.	10	3
Schedule of Instructional Time did not state whether the district complied with the instructional days provisions.	2	3

Appendix D (continued)

<i>Description</i>	<i>Number of Deficiencies</i>	
	<i>FY 2019-20</i>	<i>FY 2020-21</i>
Schedule of Instructional Time indicates noncompliance, but a finding was not included in the audit report.	0	3
Schedule of Financial Trends and Analysis: Available reserves are below minimum required; and management's plans and/or going concern note were not included.	6	1
Schedule of Charter Schools was deficient.	14	1
Schedule of Financial Trends and Analysis was not included, or schedule was deficient.	0	1
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements was not included.	2	0
Schedule of Average Daily Attendance for charter school did not include total ADA and the ADA generated through classroom-based instruction by grade span, as appropriate.	5	0
Schedule of Average Daily Attendance did not display final ADA after audit finding adjustment(s).	3	0
Schedule of Average Daily Attendance was deficient.	9	0
Local Education Agency Organization Structure description was not included.	2	0
Subtotal	98	37
 <u>Schedule of Expenditures of Federal Awards</u>		
Note to the Schedule of Expenditures of Federal Awards was not included, or was deficient.	1	10
Schedule of Expenditures of Federal Awards was deficient.	9	11
Schedule of Expenditures of Federal Awards was not included.	0	1
Subtotal	10	22
 <u>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters</u>		
Report on internal control over financial reporting was deficient.	490	44
Report on compliance and other matters did not include a statement that the auditor performed tests of compliance.	458	43
Report on compliance and other matters was deficient.	2	1
Description of the nature of modified opinion on the financial statements was not properly disclosed on the report.	5	0
Report on compliance and other matters did not include a statement regarding test results.	3	0
Report on Internal Control over Financial Reporting and on Compliance and Other Matters (<i>Government Auditing Standards</i>) was not included.	2	0
Subtotal	960	88

Appendix D (continued)

<i>Description</i>	<i>Number of Deficiencies</i>	
	<i>FY 2019-20</i>	<i>FY 2020-21</i>
<u>Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance (Uniform Guidance)</u>		
Report on compliance for each major federal program and on internal control over compliance (Uniform Guidance) was not included.	22	5
Report on compliance for each major federal program and on internal control over compliance (Uniform Guidance) was deficient.	4	0
Noncompliance that did not result in an opinion modification was not disclosed in the report.	1	0
Significant deficiencies in internal control over compliance were not properly disclosed in the report.	1	0
Material weaknesses in internal control over compliance were not properly disclosed in the report.	2	0
Subtotal	30	5
<u>State Compliance Report</u>		
Independent Auditor's Report on State Compliance was deficient.	19	22
Independent Auditor's Report on State Compliance did not include an opinion on whether the entity complied, in all material respects, with the state compliance requirements.	197	7
Subtotal	216	29
<u>Findings and Recommendation Section</u>		
State Program Finding(s): Noncompliance was reported; however, the finding(s) did not include sufficient information.	19	6
Summary of Auditor's Results was deficient.	166	5
Federal Program Finding(s): Noncompliance was reported; however, the finding(s) did not include sufficient information.	1	2
Schedule of Findings and Questioned Costs was not included.	4	2
Schedule of Prior Audit Findings was not included.	11	2
Financial statement finding did not include the cause.	0	1
Financial statement finding did not include the criteria.	1	1
Audit finding was not coded with the correct five-digit number.	8	1
State compliance finding did not include a statement (which may include questioned costs) consistent with its basis of funding, for any inappropriately reported claim.	6	1
Auditee's corrective action plan to eliminate noncompliance was not included.	1	0
Summary of Auditor's Results was not included.	1	0
Financial statement finding did not include the recommendation.	1	0
Sufficient information for judging the prevalence and consequences of noncompliance was not included.	1	0
Financial statement finding did not include the views of responsible officials and planned corrective actions.	1	0

Appendix D (continued)

<i>Description</i>	<i>Number of Deficiencies</i>	
	<i>FY 2019-20</i>	<i>FY 2020-21</i>
Attendance Finding: ADA inappropriately reported for apportionment and an estimate of their dollar value not included.	4	0
Subtotal	225	21
<u>Other</u>		
Auditor's reports did not include a manual or printed signature of the auditor's firm and date of the report.	9	0
Subtotal	9	0
Total number of deficiencies	<u>1,628</u>	<u>260</u>

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250**

www.sco.ca.gov