FINANCIAL AUDIT OF THE CLEAN ENERGY JOB CREATION FUND

Audit Report

Years Ended June 30, 2017, and June 30, 2018

BETTY T. YEE
California State Controller

June 2019

BETTY T. YEE
California State Controller

June 28, 2019

Adrienne Alvord, Chair
Citizens Oversight Board
California Energy Commission
1516 9th Street, MS 29
Sacramento, CA 95814

Dear Ms. Alvord:

The State Controller's Office has completed a financial audit of the Clean Energy Job Creation Fund (Fund) recorded in the State of California's General Fund for the years ended June 30, 2017, and June 30, 2018.

The auditor's report expresses a qualified opinion on the Fund's financial statements as of June 30, 2017, and disclaims an audit opinion on the financial statements as of June 30, 2018. We identified incorrectly reported expenditures for both fiscal years. In addition, we determined that the California Community Colleges Chancellor's Office and the California Conservation Corps have not completed reconciliations and determined the final amounts for recording of account balances and activity as of June 30, 2018, due to issues converting to the Financial Information System for California. Further discussion of these issues is included in the Findings and Recommendations section of the audit report.

If you have any questions, please contact Joel James, Chief, Financial Audits Bureau, by telephone at (916) 323-1573.

Sincerely,

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

JLS/ls

cc: Tony Thurmond, Superintendent of Public Instruction
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Adrienne Alvord, Chair
Citizens Oversight Board
California Energy Commission
1516 9th Street, MS 29
Sacramento, CA 95814

Report on the Financial Statements

The State Controller's Office was engaged to audit the accompanying balance sheet and the related statement of appropriations, expenditures, and changes in fund balances of the Clean Energy Job Creation Fund (Fund) recorded in the State General Fund, as of and for the years ended June 30, 2017, and June 30, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our qualified and disclaimed audit opinions.

Summary of Opinions

Opinion Unit	Fiscal Year	Type of Opinion
Clean Energy Job Creation Fund	2016-17	Qualified
Clean Energy Job Creation Fund	2017-18	Disclaimer

Basis for Qualified Opinion

Because the California Community Colleges Chancellor’s Office accounting records were inadequate and certain supporting documents were not available, we were unable to obtain sufficient appropriate audit evidence to support the amount of $67,587,090, the expenditures of which are reported in the accompanying financial statements, as of June 30, 2017.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion” paragraph, the financial statements for the year ended June 30, 2017 present fairly, in all material respects, the financial position of the Fund as of June 30, 2017, and the respective change in fund balance for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion

Because the California Community Colleges Chancellor’s Office and the California Conservation Corps have not closed their books as of June 30, 2018, by completing all reconciliations and finalizing the recording of account balances and activity as of June 30, 2018, we were unable to validate the accuracy of the account balances and activity recorded in the Fund. Because the amounts recorded by both the California Community Colleges Chancellor’s Office and the California Conservation Corps are material to the Fund, we were unable to determine whether the Fund financial statements as of June 30, 2018, are fairly and accurately stated.

Disclaimer of Opinion

Because of the significance of the matter described in the “Basis for Disclaimer of Opinion” paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial position of the Fund as of June 30, 2018, and the respective change in fund balance for the year then ended. Accordingly, we do not express an opinion on these financial statements for fiscal year 2017-18.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated June 28, 2019, on our consideration of the internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope and results of our testing of internal control over financial reporting and compliance, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund’s internal control over financial reporting and compliance.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

Sacramento, CA

June 28, 2019

Balance Sheet
June 30, 2017, and June 30, 2018

	(Amounts in Thousands)	
	2018	2017
Assets		
Cash	$ 192,914	$ 439,051
Accounts receivable	854	487
Due from other governments	55	125
Total assets	$ 193,823	$ 439,663
Liabilities		
Accounts payable	$ 189	$ 270
Due to other funds	1,029	985
Due to other governments	56,420	20,159
Total liabilities	57,638	21,414
Fund balances		
Restricted for efficient and clean energy projects	136,185	418,249
Total liabilities and fund balances	$ 193,823	$ 439,663

The notes to the financial statements are an integral part of this statement.

Statement of Appropriations, Expenditures, and Changes in Fund Balances Years Ended June 30, 2017, and June 30, 2018

	(Amounts in Thousands)	
	2018	2017
Appropriations		
California Department of Education	$ 384,869	$ 407,210
California Community Colleges Chancellor's Office	46,500	49,280
California Workforce Development Board	3,000	3,000
California Conservation Corps	5,816	5,635
Total appropriations	440,185	465,125
Expenditures		
Local assistance – California Department of Education	667,535	390,729
Local assistance – California Community Colleges Chancellor's Office	46,368	67,587
State operations – California Workforce Development Board	2,646	3,996
State operations – California Conservation Corps	5,700	5,367
Total expenditures	722,249	467,679
Changes in fund balances	(282,064)	(2,554)
Fund balance – beginning	418,249	420,803
Fund balance – ending	$ 136,185	$ 418,249

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements
Years Ended June 30, 2017, and June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Clean Energy Job Creation Fund (Fund) are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant accounting policies of the Fund are described below.

A. Description of Reporting Entity

The Fund was created upon the voters' approval of Proposition 39 in the November 6, 2012 statewide general election. Proposition 39 changed the corporate income tax code for taxes from out-of-state businesses based on a percentage of sales in California; it allocates projected revenue to the State's General Fund and the Clean Energy Job Creation Fund for five fiscal years, beginning with fiscal year (FY) 2013-14. The California State Legislature (Legislature) may appropriate up to $550 million annually to the Fund. Money available in the Fund is for the purpose of funding projects that create jobs in California that improve energy efficiency and expand clean energy generation. The Fund is shared by five state agencies that provide the money for clean energy projects. The five state agencies sharing the Fund and providing the monetary resources for the clean energy projects are the California Department of Education (CDE), the California Community Colleges Chancellor's Office (CCCCO), the California Workforce Development Board (CWDB), the California Conservation Corps (CCC), and the California Energy Commission (CEC). The five state agencies are provided these funds through appropriations in the State's annual budget. The money in the Fund will no longer be available for encumbrance after June 30, 2018.

The Fund is overseen by the Citizens Oversight Board (COB), which was established upon the California voters' approval of Proposition 39. Members of the COB are appointed by the California Treasurer, Attorney General, and Controller with two ex officio members from the CEC and the California Public Utilities Commission.

B. Basis of Presentation – Fund Financial Statements

The accounts of the Fund are organized on the fund basis of accounting. A fund is a separate accounting entity with a self-balancing set of accounts. The Fund was established for the purpose of accounting for the specific activities designated in the establishment of the Fund. A governmental fund is used to account for these activities.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, and the basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Fund, however, does not record revenues. The revenues are recorded by the State in its General Fund through the collection of taxes. The Fund records appropriations as designated by the Legislature and upon approval of the State's annual budget. Expenditures are generally recorded when a liability is incurred, as under accrual basis accounting.

Non-exchange transactions, in which the Fund gives or receives value without directly receiving or giving equal value in exchange, include the Fund's provision of grants and awards to recipient school and community college districts. The Fund may also provide resources for energy projects through cost-reimbursement grants.

D. Cash

The cash and investment balances of the Fund are held in the State's cash and investment pool in the State Treasury. The State maintains a cash and investment pool in order to facilitate the management of cash. Interest is allocated to its various funds based on average cash balances. Investments held in the State's cash management pool are available on demand to the state agencies sharing the Fund and are stated at fair value. The State's Comprehensive Annual Financial Report provides information about the categorization of investments.

All cash and investments in the State's cash and investment pool are highly liquid and considered cash equivalents. Cash equivalents are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

Additional disclosure details required by GASB Statement No. 3, GASB Technical Bulletin 94-1, and GASB Statement No. 40, regarding cash deposits, investments, and derivatives, can be found in the State of California Comprehensive Annual Financial Report for fiscal year ended June 30, 2018.

E. Accounts Receivable and Due From Other Governments

The receivables amount represents money owed to the CDE by charter schools and school districts but not collected by the end of the year. Similarly, the due from other governments is the amount owed by county offices of education to the CDE not yet collected at year-end. All amounts owed to the CDE consist of the request for the return of unused funds for energy projects. The CDE has determined that $433,244 of the receivables as of June 30, 2017, and $406,155 of the receivables as of June 30, 2018, may be uncollectible, as the charter schools for which the amounts are due are no longer in operation. An allowance for doubtful accounts was not established, as the amounts are immaterial to the Fund.

The receivables from CCC represent an overpayment to three employees due to a change in dental plans and associated health benefit premiums.

F. Accounts Payable

The accounts payable are owed by the CCC, CWDB, and CCCCO for contract and claim amounts incurred for clean energy and energy efficiency projects accrued and owed at year end but not yet paid.

G. Due to Other Funds

The balance of due to other funds consists of the amounts owed by the CCC and CWDB for energy survey activities and grants for workforce training for clean energy retrofit projects.

H. Due to Other Governments

The balance of due to other governments is the amount owed by the CCCCO for apportionment payments to various community college districts, amounts owed by the CDE for apportionment payments to various county offices of education, school districts, and charter schools, amounts owed by the CCC for instructional services to implement the Energy Corps program, and by the CWDB for workforce development projects.

I. Fund Balances

Restricted fund balances are fund balances with constraints placed on their use by external parties, including creditors, grantors, contributors, or laws and regulations of other governments. Restrictions also include constraints imposed by law through constitutional provisions or enabling legislation.

The fund balances of the Fund are restricted for the purpose of financing energy efficiency and clean energy projects; other uses of the funds are not permitted.

J. Appropriations

Each of the state agencies sharing the Fund receives appropriations through the State's annual budget. The source of the money from a multi-state business tax increase is originally recorded as revenue in the State's General Fund but is then recorded as appropriations to the Fund to avoid double-counting of revenues. The appropriations are the amounts determined by the Legislature in adopting the annual budget as the amount available to each state agency for promoting projects for clean energy and job growth.

K. Expenditures

The expenditures are incurred by each of the state agencies for varied functions related to promoting clean energy projects and job creation. The CDE and CCCCO provide funding classified as local assistance to districts within their jurisdiction. The CDE provides awards for energy retrofit improvements of school districts, charter schools, and county offices of education. The CCCCO funds awards and grants to community college districts, and pays a consultant to review and approve projects for energy savings. The CWDB and CCC provide project funding statewide, not limited to local districts, as state operations. The CWDB provides competitive grants for eligible workforce training organizations, which prepare disadvantaged youth, veterans, or others for employment. The CCC conducts energy surveys and energy conservation-related activities for public schools. The CEC reviews and approves energy expenditure plans submitted by local educational agencies to obtain approval for funding provided by the CDE.

All expenditures are for materials and equipment related to the costs improving energy efficiency, expanding clean energy generation, and creating jobs, or related personnel costs (salaries, wages, and benefits). Of the total expenditures incurred, $3.9 million in FY 2016-17 and $5.1 million in FY 2017-18 were personnel-related, or no more than 0.8% of total expenditures in any year.

L. Operating Transfers

The CEC did not receive any appropriations for the Fund in FY 2016-17 and FY 2017-18. In prior years, appropriations received by the CEC were passed through to a separate account, the State Energy Conservation Assistance Account (ECAA). The money in this account is not part of the Fund and are accounted for separately. The CEC is the administrator of the ECAA. The money in the ECAA is used to provide loans to schools, hospitals, public care institutions, and local government entities for financing energy-conservation-related projects.

M. Use of Estimates

The financial statements have been prepared in conformity with GAAP and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

N. Allocations

The CDE annually allocates available funds to school districts, charter schools, and county offices of education, and provides funding to these entities on a quarterly basis. The CCCCO annually allocates available funds to the community college districts and provides funding on a monthly basis.

OTHER INDEPENDENT AUDITOR'S REPORT SECTION

BETTY T. YEE
California State Controller

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Adrienne Alvord, Chair
Citizens Oversight Board
California Energy Commission
1516 9th Street, MS 29
Sacramento, CA 95814

The State Controller's Office audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the balance sheet and the related statement of appropriations, expenditures, and changes in fund balances of the Clean Energy Job Creation Fund (Fund) recorded in the State General Fund, as of and for the years ended June 30, 2017 and June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated June 28, 2019. The report on the financial statements was qualified for fiscal year (FY) 2016-17 and we issued a disclaimer of opinion for FY 2017-18 for the following reasons:

We were unable to obtain sufficient appropriate audit evidence to support the amount at which the expenditures are reported in the accompanying financial statements for the California Community Colleges Chancellor's Office of $67,587,090, as of June 30, 2017.

We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial position of the Fund as of June 30, 2018, and the respective change in fund balance for the year then ended. Accordingly, we do not express an opinion on these financial statements for FY 2017-18.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Fund, we considered the internal control over financial reporting of the Fund to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion of the effectiveness of the internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement in the Fund's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying findings and recommendations section to be a material weakness (see Finding 1).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention from those charged with governance. We consider the deficiency described in the accompanying Findings and Recommendations section to be a significant deficiency (see Finding 2).

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to be material weaknesses. However, material weaknesses may exist that we did not identify.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. If the scope of our work had been sufficient to enable us to express an opinion on the financial statements for FY 2017-18, instances of noncompliance or other matters may have been identified and reported herein.

Purpose of this Report

The purpose of this report is solely to describe the scope and results of our testing of internal control and compliance, and not to provide an opinion on the effectiveness of the internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Original signed by

JIM L. SPANO, CPA
Chief, Division of Audits

Sacramento, CA

June 28, 2019

FINDINGS AND RECOMMENDATIONS SECTION

FINDING 1—Supporting Documents Not Adequately Maintained

During our review of the Clean Energy Job Creation Fund (Fund), we noted the following deficiencies:

Cash

Cash reconciliations were incomplete for fiscal year (FY) 2017-18. The California Community Colleges Chancellor's Office (CCCCO) and California Conservation Corps (CCC) were in the process of reviewing their books of account and performing reconciliations to determine the final amounts for year-end financial reporting. Both agencies were unable to complete all reconciliations required to provide a final accounting of amounts necessary to prepare the shared fund cash reconciliation. For FY 2017-18, CCCCO did not provide its trial balance and year-end final or estimated financial statements, and CCC provided estimated trial balances and year-end financial statements. California Department of Education (CDE) is unable to generate a final reconciliation for the Fund without all of the shared fund users providing their required reports. Without the final accounting and completed reconciliations, we were unable to determine that cash is presented accurately and free from material misstatement.

Accounts Receivable and Due From

For FY 2017-18, CCCCO did not provide final or estimated year-end financial statements that include its attestation that all accounting and budget items have been fully reconciled to reflect full compliance with state law. As a result, we were unable to determine whether the accounts receivable and due from amounts reported in the financial statements are presented accurately and free from material misstatement.

Accounts Payable and Due To

For FY 2017-18, we were unable to determine whether the accounts payable and due to amounts reported in the financial statements were presented accurately and free from material misstatement. CCCCO and CCC did not reconcile their liability accounts. While the CCC reported only estimated liabilities of approximately $54,000, the CCCCO identified $8.9 million in due to other government liabilities as of October 1, 2018, and on December 5, 2018, it revised its estimate to $17.8 million.

Expenditures

For FY 2016-17 and FY 2017-18, reported expenditures for CCCCO were $59.0 million and $46.6 million, respectively. However, CCCCO did not provide documentation to support the total expenditures identified for each fiscal year. We were able to verify allocation amounts paid from CCCCO's website for FY 2016-17 and FY 2017-18 of $32.0 million and $52.8 million, respectively. However, CCCCO did not provide the balances and support for the amounts paid for grants and consultants for both fiscal years. As a result, we were unable to determine whether the expenditures reported in the financial statements for both fiscal years are presented accurately and free from material misstatement.

CCC reported expenditures to CDE in its estimated FY 2017-18 financial statements in the amount of $4.5 million. During the course of our audit, the CCC revised the FY 2017-18 estimate to $5.8 million. CCC began using the Financial Information System for California (FI$Cal) in October 2017. Since implementation of FI$Cal, CCC staff has faced challenges in processing routine month-end accounting transactions, such as running labor and cost allocations and performing reconciliations. As a result, a large volume of reconciling items due to user error, system limitations, and lack of training and staff resources has delayed reconciliations and closing of the books.

FI$Cal provides a statewide accounting, budget, cash management, and procurement IT system. CCCCO and CCC have experienced several challenges since implementing FI$Cal, causing delays for both agencies which, in turn, have affected their ability to finalize FY 2017-18 accounting records and provide supporting documentation.

State Administrative Manual (SAM) section 6401 states, in part:

> Responsibilities of Shared Fund Users:
>
> 1. Verifies the accuracy of departmental accounting records by performing monthly reconciliations with source documents and corresponding appropriation and general ledger accounts maintained by the SCO.
> 2. Ensures the accuracy and consistency of data between budget documents (e.g., Fund Condition Statement, if applicable) and year-end financial reports submitted to the SCO.
> 3. Provides all necessary information requested by the fund administrator to manage and reconcile the fund on a timely basis, including the following:
>   - DF-303, Detailed Fund Balance Report (applies to funds with a published Fund Condition Statement).
>   - Copies of year-end financial reports or other backup documents related to the fund’s prior year adjustments and past year revenues/expenditures.
>   - Reconciliations and reports necessary to allow the shared fund administrator to reconcile departmental account and fund balances to SCO.
>   - DF-117, Certification of Past and Prior Year Information.

SAM section 7950 states, in part:

> YEAR-END FINANCIAL REPORTS—GENERAL
>
> Departments will prepare a separate set of year-end financial reports for each fund…
>
> Departments will prepare year-end financial reports as soon after June 30 to meet the required due dates and to estimate accruals with reasonable accuracy…
>
> In order for departments to meet their deadlines, the following is recommended:
>
> a. Issue a year-end work plan. List the specific year-end activities, due dates, responsibilities, and other important information for the timely completion of year-end financial reports.
>
> b. Keep accounting staff trained in the year-end financial report preparation procedures.

c. Keep all phases of accounting current during the fiscal year. All reconciliations should be kept current and reconciling items should be corrected on a timely basis…

d. Do as much work as possible on year-end financial reports before June 30. Departments should start work on problem areas early so that sufficient time is allocated for the timely resolution of issues anticipated in the current year…

e. Schedule vacations so they will not conflict with the preparation of year-end financial reports.

SAM section 7930 and the SCO Year-End Financial Reports Procedure Manual – Budgetary/Legal basis provide the deadline and deliverable dates for year-end financial reports, as follows:

Due Date	Name of Report or Action	Department or Other Government Requiring Report
July 31	Year-end financial reports - General Fund, Feeder Funds (0081, 0084, 0085, 0086, 0089, 0090, 0091, 0094, and 0097) - Economic Uncertainty Funds (0374 and 0375)	State Controller's Office (SCO), State Accounting and Reporting Division (SARD)
August 20	Year-end financial reports (all other funds) excluding Report 13	SCO, SARD

SAM section 8776 states, in part:

ACCOUNTS RECEIVABLE

At year-end, departments are responsible for ensuring AR balances are accurate:

- Assess the amounts owed to the department, including estimates, and when the amounts are expected to be collected.
- Record accrual entries for amounts owed to the department at June 30, but not yet recorded….
- Record entries to reclassify existing ARs when an appropriation reverts….
- Record adjusting entries to reduce AR balances for deferred amounts. The deferred amount is the portion not expected to be collected in the next fiscal year….

SAM section 8422.1 states, in part:

INVOICES AND VOUCHERS

The first step in the claim procedure is determining that invoices are proper for submission to the SCO for payment. Invoices will comply in form and content with the Victim Compensation Board regulations found in the California Code of Regulations, title 2, division 2, chapter 1, article 7, section 677. Also, the department will determine that:

- Items or services invoiced have been received or provided, as evidenced by stock received reports or similar documents or employee verification.
- Payment has not previously been made (this may be accomplished by referring to the department's remittance advice file or other department records).

- Invoices comply with provisions of purchase orders, sub-purchase orders, contracts, leases, service agreements, grants, etc.
- Authority exists to obtain the goods or services.

SAM section 8422.31 states, in part:

> RECORD OF PAYMENTS
>
> Each agency will maintain an alphabetic file of duplicate copies of payee Remittance Advice and Revolving Fund checks (see SAM Section 8422.3) as a central reference file except where a memorandum record of payments, as described below, is used. Also, payments will always be recorded on the documents authorizing the expenditure, such as purchase orders, sub-purchase orders, contracts, and service agreements. These records will be used by the agency to determine that payment has not been made previously.

The Department of Finance Fund Balance Reconciliation Guide section 1.5 – Fund Administrators' Authority and Responsibilities states, in part:

> Finance designates an administering department for each fund. The administering department is responsible for the overall management and reconciliation of the fund. The administering department (fund administrator) is responsible for submitting the DFB report, supporting year-end financial reports and FCS (Fund Condition Statement) to Finance. The fund administrator will submit the required documents to Finance by October 2018*.
>
> *Due dates will be updated in July.

The Department of Finance Fund Balance Reconciliation Guide section 1.6 – Fund Users' Responsibilities states, in part:

> Users of shared funds will prepare the DFB report using their year-end financial reports and submit the DFB report, supporting reports and certification to the fund administrator by October 2018*. The fund administrator of a shared fund will also prepare a DFB report using their year-end financial reports. It is the fund user's responsibility to communicate to the fund administrator any potential problems that may prevent the submission of timely reports to the fund administrator. The timely submission of the DFB report and supporting reports will allow the fund administrator to prepare the consolidated DFB worksheet and FCS and submit the Fund Reconciliation Packet to Finance by October 2018*.
>
> *Due dates will be updated in July.

<u>Recommendation</u>

We recommend that CCC and CCCCO:

- Implement controls to ensure that accounting records are maintained and finalized in a timely manner and in accordance with SAM section 7950; and
- Consider obtaining additional assistance to resolve the FI$Cal implementation issues.

FINDING 2— Payroll Reporting Deficiencies

During our FY 2017-18 review of payroll, we identified the following deficiencies:

- The employees included in four out of six payroll transaction summary reports could not be identified, as follows:
  - The payroll transaction summary reports did not agree with supporting Labor Distribution (LD) detail reports;
  - The payroll identifying LD journal numbers and amounts were missing in either or both of the summary and LD reports; and
- Discrepancies between the payroll amounts, transaction listings, and timing differences of multiple months in which transactions occurred and when they were recorded.

As a result of these deficiencies, we were unable to determine whether payroll expenditure amounts are accurate and not materially misstated. Payroll and related expenditures are material, comprising approximately 85% of all of CCC's expenditures. As also noted in Finding 1, CCC has experienced several challenges using FI$Cal, which has limited its ability to produce supporting detail reports.

SAM section 8539 states, in part:

> Agencies will maintain complete records of attendance and absences for each employee during each pay period. These records will be properly certified.
>
> Agencies must certify attendance to SCO after the close of each pay period in the manner prescribed by SCO.

Government Code section 13402 states, in part:

> Agency heads are responsible for the establishment and maintenance of a system or systems of internal control, and effective and objective ongoing monitoring of the internal controls within their state agencies. This responsibility includes documenting the system, communicating system requirements to employees, and ensuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Good internal controls and prudent business practices require the establishment and implementation of policies and procedures to ensure that payroll is processed accurately, properly reviewed by management, and adequate documentation is maintained to support payroll expenditures.

<u>Recommendation</u>

We recommend that CCC:

- Maintain payroll summary reports with reconciled supporting detail reports;
- Implement procedures to ensure payroll expenditures are recorded correctly in the accounting system and in conformance with SAM section 8539 and Government Code section 13402; and
- Continue working closely with technical support to resolve ongoing FI$Cal related issues.

<u>CCC's Response</u>

> In the previous Proposition 39 audit, covering fiscal years (FYs) 2013, 2014 and 2015, the California Conservation Corps (CCC) did not have any audit findings. For FY 2016, included in this current audit cycle, the CCC did not have any labor audit findings. The CCC entered the Financial Information System for California (FI$Cal) in July 2017 (FY 2017).
>
> The "payroll transaction summary reports" referenced in the finding were FI$Cal Commitment Control (KK) reports. The CCC was unable to tie these FI$Cal KK amounts to the FI$Cal Labor Distribution (LD) module amounts as the finding states.
>
> The finding also states, "…we [the auditors] were unable to determine whether payroll expenditure amounts are accurate and not materially misstated."
>
> The Department of Finance (DOF) has provided instructions to FI$Cal departments on reconciling the department's LD amounts to the State Controller's Office (SCO) amounts on a monthly basis (see attached "LD Reconciliation"). Since July 2017, the CCC has reconciled its labor amounts in LD to the SCO amounts every month. For FY 2017, the CCC payroll expenditures recorded in FI$Cal have matched SCO posted labor amounts exactly.

<u>SCO Comment</u>

Our finding and recommendation remain unchanged.

CCC stated that the amounts reported in its LD reports reconcile to the SCO posted amounts, which are reported on the CLO Form – Notice of State Payroll Revolving Fund Transfer.

Although the LD reports reconcile to the CLO forms, the amounts reported in the LD reports do not reconcile to the FI$Cal Commitment Control (KK) report, as CCC acknowledged. The KK report is the main FI$Cal reconciliation tool and displays all commitment control activity including Accounts Payable, Accounts Receivable, General Ledger, and Purchase Orders.

As reported in our finding, the payroll expenditures recorded in the LD reports did not reconcile to the payroll expenditures recorded in the KK report. Missing journal numbers and payroll amounts, and a delay between when transactions occurred and when they were recorded in the KK report made payroll testing unreliable.

As a result, we were unable to determine whether payroll expenditure amounts reported in the KK reports were accurate and not materially misstated.

Attachment—
California Conservation Corps's Response to Audit Findings

Attachment 1 –
CCC's Response

MEMORANDUM

To: David Supan

From: Arun Chatterjee

Date: 06.24.2019

In the previous Proposition 39 audit, covering fiscal years (FYs) 2013, 2014 and 2015, the California Conservation Corps (CCC) did not have any audit findings. For FY 2016, included in this current audit cycle, the CCC did not have any labor audit findings. The CCC entered the Financial Information System for California (FI$Cal) in July 2017 (FY 2017).

The "payroll transaction summary reports" referenced in the finding were FI$Cal Commitment Control (KK) reports. The CCC was unable to tie these FI$Cal KK amounts to the FI$Cal Labor Distribution (LD) module amounts as the finding states.

The finding also states, "…we [the auditors] were unable to determine whether payroll expenditure amounts are accurate and not materially misstated."

The Department of Finance (DOF) has provided instructions to FI$Cal departments on reconciling the department's LD amounts to the State Controller's Office (SCO) amounts on a monthly basis (see attached "LD Reconciliation"). Since July 2017, the CCC has reconciled its labor amounts in LD to the SCO amounts every month. For FY 2017, the CCC payroll expenditures recorded in FI$Cal have matched SCO posted labor amounts exactly.

LD Reconciliation

LD - RECONCILIATION SAMPLE			
1 *LD Payroll Queries - Filtered to EXCLUDE Clearance Type "5" and "9" for PARs and non-payroll items*			
ZZ_LD_PAYROLL_HEADERS	3,100,000.00	Total "*Gross Amount*"	
ZZ_LD_PAYROLL_BENEFITS	1,300,000.00	Total "*Benefit Amount*"	
	4,400,000.00	**Total LD to Distribute**	Tie Point 1
2 *SCO Agency Reconciliation (Tab Run) - Total CLOs*			
2017 - Total CLOs	4,125,000.00	Total	Tie Point 2
2016 - Total CLOs	275,000.00	Total	Tie Point 3
	4,400,000.00	**Total Payroll Paid**	Tie Point 1
3 *LD Accounting Entries - Filtered to EXCLUDE BU Clearing & Reversal Entries*			
ZZ_LD_ACCT_ENTRIES			
ENY 2017	4,125,000.00	Total "*Amount*" for ENY 2017	Tie Point 2
ENY 2016	275,000.00	Total "*Amount*" for ENY 2016	Tie Point 3
	4,400,000.00	**Total Labor Distributed**	Tie Point 1

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