

FINANCIAL AUDIT OF THE CLEAN ENERGY JOB CREATION FUND

Audit Report

Fiscal Years Ended June 30, 2019, and June 30, 2020



BETTY T. YEE
California State Controller

September 2022



BETTY T. YEE
California State Controller

September 30, 2022

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 completed a financial audit of the Clean Energy Job Creation Fund, recorded in the State of California's General Fund, for the fiscal years ended June 30, 2019, and June 30, 2020.

The auditor's report expresses a qualified opinion on the Clean Energy Job Creation Fund's financial statements as of June 30, 2019, and June 30, 2020. We identified incorrectly reported encumbrances and expenditures for both fiscal years. In addition, we identified incorrectly reported amounts for Accounts Payable, Due to Local Governments, and Due to Other Governmental Entities accounts for the fiscal year ending June 30, 2019.

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

Sincerely,

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/lis

cc: The Honorable Tony Thurmond, State Superintendent of Public Institution
California Department of Education
Mary Nicely, Chief Deputy Superintendent
California Department of Education
Leisa Maestretti, Director
Fiscal and Administrative Services Division
California Department of Education
Alice Lee, Director
Audits and Investigations Division
California Department of Education
Keith Smith, Administrator
School Fiscal Services Division
California Department of Education
Bruce Saito, Director
California Conservation Corps
Dawne Bortolazzo, Deputy Director
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Erika Rodea, Chief
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California Conservation Corps
Dr. Daisy Gonzales, Chancellor
California Community Colleges Chancellor's Office
Dr. Lizette Navarette, Executive Vice Chancellor
California Community Colleges Chancellor's Office
Wrenna Finche, Vice Chancellor
Fiscal Health and Accounting
California Community Colleges Chancellor's Office
Marybeth Weeks, Director
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California Community Colleges Chancellor's Office
Sandra Sanchez, Vice Chancellor
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California Community Colleges Chancellor's Office
David Hochschild, Chair
California Energy Commission
Andrew McAllister, Ph.D., Commissioner
California Energy Commission
Drew Bohan, Executive Director
California Energy Commission
Deana Carillo, Deputy Director
Renewable Energy Division
California Energy Commission
Armand Angulo, Assistant Deputy Director
Renewable Energy Division
California Energy Commission

Christopher Meyer, Manager
Renewable Energy Division
California Energy Commission

Tim Rainey, Executive Director
California Workforce Development Board

Curtis Notsinneh, Chief Deputy Director
California Workforce Development Board

Clemente Vizcarra, Deputy Director
Policy Implementation and Administrative Support
California Workforce Development Board

Joelle Ball, Deputy Director
Program Implementation and Regional Support
California Workforce Development Board

Pradeep Kotamraju, Deputy Director
Research, Policy, and Legislation
California Workforce Development Board

Joe Stephenshaw, Director
Department of Finance

Christopher Ferguson, Program Budget Manager
Education Systems Unit
Department of Finance

Ryan Miller, Program Budget Manager
Forecasting Unit
Department of Finance

Nancy Farias, Director
Employment Development Department

Tad Allred, Deputy Director
Administration Branch
Employment Development Department

Muhammad Akhtar, Deputy Director
Policy, Accountability and Compliance Branch
Employment Development Department

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FINANCIAL SECTION



BETTY T. YEE

California State Controller

INDEPENDENT AUDITOR'S REPORT

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 has audited the accompanying balance sheet and the related statement of appropriations, revenues, expenditures, and changes in fund balances of the Clean Energy Job Creation Fund (Fund), recorded in the State of California's General Fund, as of and for the years ended June 30, 2019, and June 30, 2020, 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 under 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 audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Fiscal Year</u>	<u>Type of Opinion</u>
Clean Energy Job Creation Fund	2018-19	Qualified
Clean Energy Job Creation Fund	2019-20	Qualified

Basis for Qualified Opinions

For the fiscal year ended June 30, 2019, the California Community Colleges Chancellor’s Office (CCCCO) incorrectly reported total encumbrances of \$3,273,440 in its year-end financial statements. The correct encumbrance amount is \$907,810; \$2,365,630 of the reported amount was for goods and services that CCCCCO received in fiscal year (FY) 2018-19, and should have been reported as expenditures during that fiscal year. As a result of reporting an incorrect encumbrance amount in FY 2018-19, the CCCCCO understated expenditures by \$2,365,630 in FY 2018-19, and overstated them by the same amount in FY 2019-20. Reporting an incorrect encumbrance amount also caused the CCCCCO to overstate the Fund’s FY 2018-19 ending balance and FY 2019-20 beginning balance by \$2,365,630. The CCCCCO also incorrectly reported balances for the fiscal year ended June 30, 2019: it reported a balance of \$27,469 for Accounts Payable, a balance of \$2,955,078 for Due to Local Governments, and a balance of \$318,362 for Due to Other Governmental Entities. The CCCCCO should have reclassified the Accounts Payable and Due to Other Governmental Entities balances to the Due to Local Governments account at year-end. As a result of reporting incorrect account balances, the CCCCCO overstated the Accounts Payable balance by \$27,649, overstated the Due to Other Governmental Entities balance by \$318,362, and understated the Due to Local Governments balance by \$345,831.

Qualified Opinions

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinions paragraph, the financial statements for the years ended June 30, 2019, and June 30, 2020, present fairly, in all material respects, the financial position of the Fund as of June 30, 2019, and June 30, 2020; and the respective changes in fund balance for the fiscal years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2022, 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 internal control over financial reporting and compliance exercised by the state agencies sharing the Fund.

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

Sacramento, California

September 30, 2022

Balance Sheet

Years Ended June 30, 2019, and June 30, 2020

	Dollars in Thousands	
	June 30, 2019	June 30, 2020
Assets		
Cash	\$ 128,966	\$ 123,581
Accounts receivable	32	-
Total assets	128,998	123,581
Liabilities		
Accounts payable	27	-
Due to other funds	561	-
Due to other governments	80	-
Total liabilities	668	-
Fund Balances		
Restricted for efficient and clean energy projects	128,330	123,581
Total liabilities and fund balances	\$ 128,998	\$ 123,581

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

Statement of Appropriations, Revenues, Expenditures, and Changes in Fund Balances Years Ended June 30, 2019, and June 30, 2020

	Dollars in Thousands	
	June 30, 2019	June 30, 2020
Appropriations		
California Department of Education	\$ -	\$ -
California Community Colleges Chancellor's Office	-	-
California Workforce Development Board	-	-
California Conservation Corps	-	-
California Energy Commission	-	-
Total appropriations	-	-
Revenues		
California Department of Education	617	430
California Community Colleges Chancellor's Office	-	-
California Workforce Development Board	-	5
California Conservation Corps	-	-
California Energy Commission	-	-
Total revenues	617	435
Total appropriations and revenues	617	435
Expenditures		
Local assistance – California Department of Education	-	-
Local assistance – California Community Colleges Chancellor's Office	5,438	5,085
State Operations – California Workforce Development Board	3,059	454
State Operations – California Conservation Corps	109	-
State Operations – California Energy Commission	-	-
Total expenditures	8,606	5,539
Changes in fund balances	(7,989)	(5,104)
Adjustment to beginning fund balance	133	355
Fund balance – beginning	136,186	128,330
Fund balance – ending	\$ 128,330	\$ 123,581

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

Notes to the Financial Statements

Years Ended June 30, 2019, and June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Clean Energy Job Creation Fund (Fund) are prepared in conformity with United States generally accepted accounting principles 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

In November 2012, California voters approved Proposition 39, also known as the “Income Tax Increase for Multistate Businesses Initiative.” The measure, enacted in Public Resources Code sections 26200 et seq. as the California Clean Energy Jobs Act, required out-of-state businesses to calculate their California income tax liability based on a percentage of their sales in California. It also dedicated projected revenues of \$550 million annually for five fiscal years, beginning with fiscal year (FY) 2013-14, for the purpose of funding projects that created energy efficiency and clean energy jobs in California. The Fund was created to receive the Proposition 39 revenues, and to fund energy efficiency retrofits and clean energy installations, energy system improvements, and/or financial and technical assistance to public schools, universities and colleges, and other public buildings and facilities; job training and workforce development to train and employ disadvantaged youth, veterans, and others on energy efficiency and clean energy projects; and public-private partnerships.

The Fund is administered by the California Department of Education (CDE) and overseen by the Citizens Oversight Board.¹ It is a Governmental Cost Fund recorded in the State of California’s General Fund, and is accounted for under the modified accrual basis of accounting. The California State Legislature (Legislature) may appropriate up to \$550 million annually to the Fund. Pursuant to Public Resources Code section 26205, money in the Fund is for the purpose of funding projects that create California jobs improving energy efficiency and expanding clean energy generation.

Five state agencies share the Fund and provide the monetary resources for clean energy projects: the 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 receive these funds through appropriations in the State’s annual budget. The money in the Fund is no longer available for encumbrance as of June 30, 2018.

¹ The Citizens Oversight Board was established upon the California voters’ approval of Proposition 39. Members are appointed by the California Treasurer, the Attorney General, and the State 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 to account for specific activities designated in the establishment of the Fund.

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 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 the accrual basis of 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 Annual Comprehensive 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’s Annual Comprehensive Financial Report for the fiscal year ended June 30, 2020.

E. Accounts Receivable and Due from Other Governments

The Accounts Receivable amount represents money owed to CDE by charter schools and school districts but not collected by the end of the fiscal year. Similarly, the Due from Other Governments amount represents money owed by county offices of education to CDE not

yet collected at fiscal year-end. All amounts owed to the CDE consist of unused funds for energy projects that local educational agencies (LEAs) must return to the CDE.² The CDE has determined that \$583,610 of the receivables as of June 30, 2019, and June 30, 2020, may be uncollectible, as the charter schools from which the funds are due are no longer in operation. An allowance for doubtful accounts has not been established, as the amounts are immaterial to the Fund.

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

F. Accounts Payable

The Accounts Payable amount represents money owed at fiscal year-end but not yet paid by the CCC, the CWDB, and the CCCC for contract and claim amounts incurred for clean energy and energy efficiency projects.

G. Due to Other Funds

The Due to Other Funds amount represents money owed by the CCC and the CWDB for energy survey activities and grants for workforce training for clean energy retrofit projects.

H. Due to Other Governments

The Due to Other Governments amount represents the money owed by the CCCC for apportionment payments to various community college districts 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, and contributors; or by law through constitutional provisions, enabling legislation, or laws and regulations of other governments.

The fund balances of the Fund are restricted to 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. There were no appropriations to the Fund during either fiscal year.

K. Revenues

Revenues are comprised of invoiced amounts that CDE received from various LEAs and the CWDB. Revenues from LEAs are returned unused funds for energy planning activities, and the revenue from the CWDB is a prior-period payment to a vendor. The CWDB payment was not cashed or deposited; it was escheated to the State as required by law.

²LEAs include school districts, charter schools, and county offices of education.

Escheated funds are appropriately recognized as revenue in accordance with accounting requirements.

L. 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 the CCCCCO 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 CCCCCO funds awards and grants to community college districts, and pays a consultant to review and approve projects for energy savings. The CWDB and the 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, and 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 LEAs to obtain approval for funding provided by CDE.

All expenditures are for materials and equipment related to the costs of improving energy efficiency, expanding clean energy generation, and creating jobs, or related personnel costs (salaries, wages, and benefits). Personnel costs (\$177,962 in FY 2018-19 and \$111 in FY 2019-20) were no more than 3% of total expenditures (\$8.6 million in FY 2018-19 and \$5.5 million in FY 2019-20) in any fiscal year.

M. Operating Transfers

The CEC did not receive any appropriations for the Fund in FY 2018-19 or FY 2019-20. In prior fiscal years, appropriations received by CEC were passed through to a separate account, the State Energy Conservation Assistance Account, administered by CEC. The money in the Energy Conservation Assistance Account is used to provide loans to schools, hospitals, public care institutions, and local government entities for financing projects related to energy conservation. The Energy Conservation Assistance Account is not part of the Fund and is accounted for separately.

N. Use of Estimates

The financial statements have been prepared in conformity with United States generally accepted accounting principles and, therefore, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

O. 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 CCCCCO annually allocates available funds to the community college districts and provides funding on a monthly basis.

P. Prior Period Adjustments

Beginning fund balance adjustments are attributed to corrections of overstated expenditures in prior periods. The CDE adjusted the beginning fund balance for FY 2018-19 by \$132,536 and the CCC adjusted the beginning fund balance for FY 2019-20 by \$355,308.

**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 has 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, revenues, expenditures, and changes in fund balances of the Clean Energy Job Creation Fund (Fund) recorded in the State of California's General Fund, as of and for the years ended June 30, 2019, and June 30, 2020, and the related notes to the financial statements, and has issued its report thereon dated September 30, 2022.

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 as a basis for designing audit procedures that were appropriate under 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 on 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. 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.

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; and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control that we consider to be a material weakness; it is described in the accompanying finding and recommendation section (Finding—California Community Colleges Chancellor's Office accounts incorrectly reported). We did not identify any significant deficiencies.

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 financial statements. 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*.

California Community Colleges Chancellor's Office Response to Finding

The California Community Colleges Chancellor's Office response to the finding identified in our audit is included in the accompanying finding and recommendation section. The California Community Colleges Chancellor's Office response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Original signed by

KIMBERLY TARVIN, CPA
Chief, Division of Audits

Sacramento, California

September 30, 2022

FINDING AND RECOMMENDATION SECTION

Finding and Recommendation

**FINDING—
California
Community Colleges
Chancellor’s Office
accounts incorrectly
reported**

During our review of the Fund, we identified incorrectly reported encumbrances and expenditures for the fiscal years ending June 30, 2019, and June 30, 2020. In addition, we identified incorrectly reported amounts for the Accounts Payable, Due to Local Governments, and Due to Other Governmental Entities accounts for the fiscal year ending June 30, 2019.

Encumbrances, Expenditures, and Fund Balances

For FY 2018-19, the CCCCCO incorrectly reported total encumbrances of \$3,273,440 in its year-end Report No. 1 (Report of Accruals to Controller’s Accounts). We determined that the correct encumbrance amount is \$907,810; \$2,365,630 of the reported amount was for goods and services that CCCCCO received in FY 2018-19, and should have been reported as expenditures during that fiscal year. As a result of reporting an incorrect encumbrance amount in its FY 2018-19 year-end financial statements, the CCCCCO understated its expenditures by \$2,365,630 in FY 2018-19, and overstated them by the same amount in FY 2019-20. Reporting an incorrect encumbrance amount also caused the CCCCCO to overstate the Fund’s FY 2018-19 ending balance and the Fund’s FY 2019-20 beginning balance by \$2,365,630. We determined that the extent of the error was limited to CCCCCO’s Fund reporting. CCCCCO’s internal records correctly accounted for the FY 2018-19 encumbrances. However, the amount reported and carried forward for the Fund was incorrect.

Accounts Payable, Due to Local Governments, and Due To Other Governmental Entities

The CCCCCO also incorrectly reported balances for the fiscal year ended FY 2018-19: it reported a balance of \$27,469 for Accounts Payable; a balance of \$2,955,078 for Due to Local Governments; and a balance of \$318,362 for Due to Other Governmental Entities. We determined that the CCCCCO should have reclassified the Accounts Payable and Due to Other Governmental Entities balances to the Due to Local Governments account at year-end. As a result of this error, the CCCCCO overstated the Accounts Payable balance by \$27,469; overstated the Due to Other Governmental Entities balance by \$318,362; and understated the Due to Local Governments balance by \$345,831. These reporting errors had no effect on the fund balance reported for either FY 2018-19 or FY 2019-20.

Government Code section 13307(a) requires that, when determining the fund balance, the following principle be applied:

Encumbrances, which are any valid obligation for the delivery of goods or services, should not be counted as a budgetary expenditure until the delivery of the goods or services.

State Administrative Manual section 7901, “Reconciliations – General,” states, in part:

Agencies/departments are required to perform reconciliations to ensure accuracy and consistency in their accounting records. Agencies/departments will reconcile the account balances to supporting documentation such as invoices, receipts, etc. Agencies/departments will also compare agency/department accounts with records other than those prepared by the agency/department, such as bank statements used in a bank reconciliation.

In addition to the above reconciliation processes, agencies/departments must complete timely reconciliations between the agency’s/department’s accounts with the accounts maintained by the State Controller’s Office (SCO) to disclose and correct errors as they occur. Errors must be corrected as soon as possible and reconciling differences must be resolved before financial reports are prepared to ensure accuracy.

Recommendation

We recommend that CCCCCO ensure that:

- Encumbrances are accounted for in conformity with Government Code section 13307; and
- Effective controls are established and functioning to facilitate reconciliations performed in accordance with State Administrative Manual section 7901.

CCCCCO’s Response

The Chancellor’s Office appreciates the diligence of the State Controller's Office Division of Audits and is in agreement that 2018-19 encumbrances and balances of Accounts Payable, Due to Local Governments, and Due to Other Governmental Entities were incorrectly reported to the State Controller's Office. Since 2018-19, our office has made great strides in improving internal controls over financial reconciliations and reporting. As such, the Chancellor’s Office remains committed to performing reconciliations in accordance with State Administrative Manual section 7901 and reporting of encumbrances in conformity with Government Code section 13307, as recommended by the State Controller's Office.

**ATTACHMENT—CCCCO’S RESPONSE TO
DRAFT AUDIT RPEORT**



WRENN FINCHE
Vice Chancellor
Fiscal Health and Accounting
College Finance and Facilities Planning

September 2, 2022

Joel James, Chief
Financial Audits Bureau
State Controller's Office, Division of Audits
PO Box 942850
Sacramento, CA 94250

Dear Mr. James:

This letter serves as the Chancellor's Office response to the finding and recommendation in the *Financial Audit of the Clean Energy Job Creation Fund Recorded in the State General Fund for Fiscal Years Ended June 30, 2019, and June 30, 2020*.

Finding – California Community Colleges Chancellor's Office accounts incorrectly reported

Recommendation - We recommend that CCCC ensure that:

- Encumbrances are accounted for in conformity with Government Code section 13307; and
- Effective controls are established and functioning to facilitate reconciliations performed in accordance with State Administrative Manual section 7901.

Chancellor's Office Response

The Chancellor's Office appreciates the diligence of the State Controller's Office Division of Audits and is in agreement that 2018-19 encumbrances and balances of Accounts Payable, Due to Local Governments, and Due to Other Governmental Entities were incorrectly reported to the State Controller's Office. Since 2018-19, our office has made great strides in improving internal controls over financial reconciliations and reporting. As such, the Chancellor's Office remains committed to performing

Chancellor's Office
1102 Q Street, Sacramento, CA 95811 | 916.445.8752 | www.cccco.edu

reconciliations in accordance with State Administrative Manual section 7901 and reporting of encumbrances in conformity with Government Code section 13307, as recommended by the State Controller's Office.

Sincerely,

Wrenna Finche

Wrenna Finche

cc: Dr. Lizette Navarette, Executive Vice Chancellor
Institutional Supports and Success

Marybeth Weeks, Director of Accounting
College Finance and Facilities Planning

Chancellor's Office

1102 Q Street, Sacramento, CA 95811 | 916.445.8752 | www.cccco.edu

**State Controller's Office
Division of Audits
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