

ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS

Report to the Superintendent of Public Instruction

For the Period of July 1, 2007, through June 30, 2008



JOHN CHIANG
California State Controller

July 2009



JOHN CHIANG
California State Controller

July 7, 2009

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

Dear Superintendent O'Connell:

I am pleased to announce the completion of the Annual Financial Report of California K-12 Schools for 2008. The report summarizes the financial and program compliance status of the State's school districts, county offices of education, and charter schools for Fiscal Year (FY) 2007-08, unless otherwise specified. For the FY 2007-08, there were a total of 1,393 local education agencies (LEAs). This 1,393 comprises 973 school districts, 58 county offices of education, and 362 charter schools.

As a whole, California's local educational agencies received more money than they spent, an improvement over last fiscal year by \$.316 billion. However, the number of LEAs engaged in multi-year deficit spending increased from 23 to 39. The number of districts and county offices of education filing negative or qualified second-interim certifications for FY 2008-09 increased from 130 to 131, primarily due to deficit spending, projected revenue limit changes, projected operating expenditure changes, contribution changes, and inadequate reserves.

Of California's 362 charter schools, 35 (9.7%) currently show signs of possible financial instability. Of these 35 charter schools, 31 reported deficit fund balances for FY 2007-08, and the remaining 4 had fund balance reserves of less than 1% of general fund expenditures.

State and federal compliance findings noted in the independent auditors' reports of school districts and county offices of education decreased from the prior year. Auditors reported 946 compliance findings in FY 2007-08, a 10% decrease from the 1,052 reported in FY 2006-07. Moreover, 25.2% of the compliance findings were related to deficiencies in average daily attendance (ADA) accounting, which is the primary basis for the allocation of state funding. The independent audit reports also noted that 51 of the 1,109 local educational

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July 7, 2007
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agencies (4.5%) participating in the Class-Size Reduction Program failed to fully comply with program reporting requirements that may result in repayment of state funds. The auditors also reported 176 findings pertaining to the After School Education and Safety Program.

I hope the report will be useful to you and the Legislature in planning California's future education needs. Please direct any comments regarding the content of the report to John Hiber, Chief Operating Officer, at (916) 445-3028.

Sincerely,

Original signed by

JOHN CHIANG
California State Controller

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Executive Summary

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

This oversight responsibility includes reviewing annual local education agencies' audit reports, maintaining a database with financial and statistical data on local education agencies' audit reports, reviewing and certifying the audit reports submitted by independent auditors, tracking financially troubled school districts identified by the interim reporting process, developing and submitting the content of the Standards and Procedures for Audits of California K-12 Local Educational Agencies to the Education Audit Appeals Panel, and conducting financial and program audits at various local education agencies.

Most of the information used to prepare this report is compiled from annual audit reports prepared for individual local education agencies (LEAs) by independent certified public accountants for fiscal year (FY) 2007-08. Additional data was taken from interim financial report certifications submitted by LEAs during FY 2008-09. Information related to the emergency loan apportionments was obtained from various sources, including the California Infrastructure and Economic Development Bank.

This year's report contains the following key findings:

- The number of LEAs filing negative or qualified certifications during at least one of the two reporting periods increased from 130 in FY 2007-08 to 131 in FY 2008-09. In the second reporting period of FY 2008-09, 46 LEAs filed qualified interim financial reports and 16 LEAs filed negative interim financial reports. Continuing financial difficulties may have a negative impact on these LEAs' educational programs.
- The number of LEAs engaged in multi-year deficit spending increased from 23 to 39. Although some LEAs legitimately may need to engage in multi-year deficit spending (such as for building projects), this practice often is an indication that a district is facing financial difficulties.
- Thirty five (35) charter schools had deficient fund balances. Of these, 31 had deficit fund balances and the remaining 4 had fund balance reserves of less than 1% of the general fund expenditures.
- Long-term borrowing decreased by \$4.047 billion to a total of \$4.989 billion, a 44.78% decrease from the \$9.036 billion reported in the prior year. Generally, LEAs issue long-term debt to fund capital improvements, refinance existing debt, or buy land for future use.

- The number of state and federal compliance findings contained in the audit reports of LEAs decreased over the prior year. Approximately 25.2% of the compliance findings for FY 2007-08 are related to deficiencies in average daily attendance (ADA) accounting, which is the primary factor in determining the amount of funding an LEA receives from the State.
- The LEAs' annual audit reports disclosed:
 - 51 of the 869 elementary school districts, and 240 charter schools, participating in the Class-Size Reduction Program failed to fully comply with the program requirements.
 - 176 audit findings pertain to the After School Education and Safety Program.
- The number of rejected reports decreased by 67 over the prior year, from 444 to 377. Approximately 172 of the 377 reports rejected, or 46%, were charter school reports.

Introduction

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

The State Controller's Office is also responsible for financial oversight of local education agencies (school districts, charter schools, and county offices of education). Beginning with fiscal year (FY) 2005-06, Education Code section 47634.2(d) rendered charter schools subject to audits pursuant to Education Code section 41020. That Education Code section requires that audits be conducted in accordance with California Code of Regulations, Title 5, Education, section 19810, et seq. (the audit guide is also known as the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08 [K-12 Audit Guide]).

Each section of the report specifies the type of local education agency being reported on and the fiscal year for which the data was obtained.

In accordance with Education Code section 14500, the State Controller's Office's responsibilities include:

- Developing, in consultation with the Department of Finance, the State Department of Education, and other school representatives, an annual audit guide¹ that prescribes financial statements and other information that should be included in each local education agency's audit report and that provides guidance to independent auditors conducting school district audits;
- Reviewing each local education agency's audit report submitted to the State and performing the associated follow-up actions, including compliance audits;²
- Tracking notifications from the school districts that identify substantial fiscal problems at interim reporting periods;

¹ Standards and Procedures for Audits of California K-12 Local Educational Agencies (K-12 Audit Guide). The Education Code states that the Controller, in consultation with the California Department of Education, the California Department of Finance, representatives of the California School Boards Association, the California Association of School Business Officials, the California County Superintendents Educational Service Association, the California Teachers Association, and the California Society of Certified Public Accountants, shall recommend the statements and other information to be included in the audit reports filed with the State and shall propose an audit guide to carry out the purposes of this chapter. A supplement to the audit guide may be suggested during the audit year, to address issues resulting from new legislation in that year that changes the conditions of apportionment. The proposed content of the audit guide and any supplement to the audit guide shall be submitted by the Controller to the Education Audit Appeals Panel for review and possible amendment.

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

- Conducting selected school districts' annual financial and compliance audits as a condition of the districts receiving emergency State apportionment loans;
- Ensuring that satisfactory arrangements for an annual audit have been made for each local education agency;
- Performing quality control reviews of independent auditors; and
- Compiling pertinent data and reporting annually to the California State Legislature and the California Department of Education.

Financial Indicators

Overview

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

Key financial indicators representing the financial health of local education agencies (LEAs) are presented in this section of the report. Data comes from interim financial report certifications submitted by school districts during fiscal year (FY) 2008-09.

Interim Reporting

School districts in California are required to file interim reports certifying their financial health to the governing board of the district and to the county office of education. These interim reports must be completed twice a year by every school district (to cover the periods of July 1 through October 31, and November 1 through January 31) and must be reviewed by the appropriate county superintendent of schools. The interim reports must be in a format or on forms prescribed by the State Superintendent of Public Instruction and shall be based on Standards and Criteria for Fiscal Stability adopted by the State Board of Education pursuant to Education Code section 33127. Charter schools are not required to file interim reports.

One of the following three certifications must be designated by the school district or county office of education when certifying the district's fiscal stability on the interim report.

Positive: A school district or county office of education that **will** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Qualified: A school district or county office of education that **may not** meet its financial obligations for the **current fiscal year or subsequent two fiscal years**.

Negative: A school district or county office of education that **will not be able to** meet its financial obligations for the **current fiscal year or subsequent fiscal year**.

School districts that file qualified or negative interim reports work with their county school superintendent to implement corrective action. Copies of the qualified or negative certifications are forwarded to the State Controller's Office and the Superintendent of Public Instruction.

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

During FY 2008-09, 72 of the 1,031 LEAs in the State filed a qualified certification, and 16 LEAs filed a negative certification for the first-period interim report. Of these 88 LEAs, 46 filed a second-period qualified interim report, 16 filed a second-period negative report, and 26 LEAs were able to take corrective action. However, an additional 43 LEAs filed qualified or negative second-period interim reports, for a total of 105 qualified or negative certifications for the second-period interim report (Figure 1). Thus, 131 LEAs reported qualified or negative certifications for at least one of the two periods (Appendix A), and 73 LEAs remained on the list from the prior year. LEAs filing qualified or negative interim reports for two or more years are monitored closely by the SCO through continuous contact with the California Department of Education.

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

- Deficit Spending: 124 LEAs (94.7%)
- Revenue Limit (projected revenue limit for any of the current or two subsequent fiscal years has changed by more than 2% since budget adoption or first interim): 123 LEAs (93.9%)
- Other Expenditures (projected operating expenditure changes): 114 LEAs (87.0%)
- Contributions (contributions from unrestricted to restricted resources, or transfers to or from the general fund to cover operating deficits, changed since budget adoption or first interim by more than \$20,000 and more than 5% for any of the current or two subsequent fiscal years): 114 LEAs (87.0%)
- Reserves (inadequate reserves): 106 LEAs (80.9%)

An analysis of the 43 LEAs that changed from a positive first interim certification to a negative or qualified second-period interim certification revealed the same top five common causes listed above.

Figure 1

SECOND-PERIOD INTERIM REPORTING HISTORY					
	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09*</u>
Positive	979	1,003	1,010	914	926
Qualified	47	29	19	108	86
Negative	14	4	5	13	19
Totals	<u>1,040</u>	<u>1,036</u>	<u>1,034</u>	<u>1,035</u>	<u>1,031</u>

* Additional information regarding local education agencies that filed qualified or negative interim reports during fiscal year 2008-09 is provided in Appendices A and B.

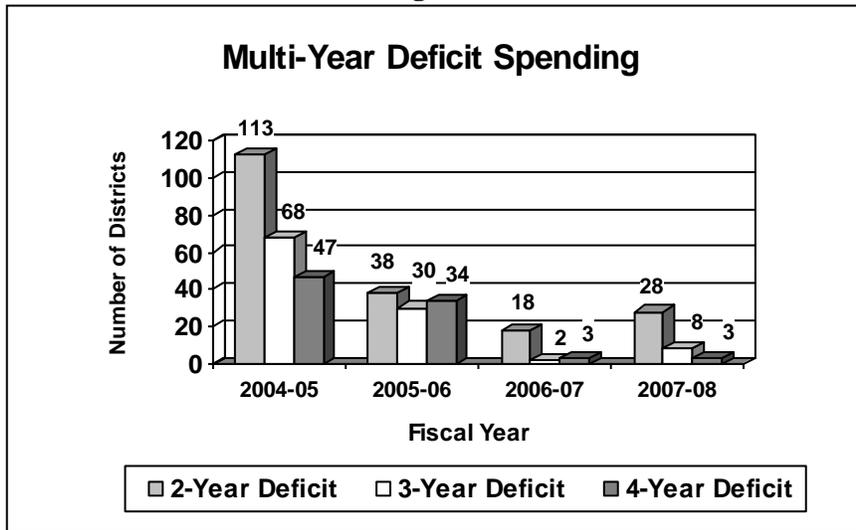
Deficit Spending

During FY 2007-08, single-year deficit spending increased to 394 LEAs from 59 LEAs in the prior fiscal year.

LEA multi-year deficit spending increased

The overall number of LEAs relying on multi-year deficit spending increased (Figure 2). Deficit spending patterns are monitored closely by the county offices of education and the California Department of Education to determine whether the districts are facing serious financial problems.

Figure 2



Emergency Apportionments

When the governing board of a school district determines that the district’s revenues are not sufficient to meet its current-year obligations, it may request, through legislation, an emergency apportionment loan. As a condition of acceptance of the loan, the superintendent appoints an administrator or trustee to control, monitor, and review the operation of the district. The administrator or trustee helps the district develop a five-year recovery plan.

School districts making timely payments

During the past 27 years, the State has granted more than \$224 million in emergency loans to school districts from the general fund. The emergency loans are designed to provide an advance of apportionments owed to the districts from the State School Fund. During FY 2008-09, four districts had general fund loan balances in amounts ranging from \$0.7 million to \$32.0 million.

Education Code sections 41329.50 through 41329.54 and 41329.56 specify the requirements for emergency apportionment financing.

West Contra Costa Unified School District and Oakland Unified School District are required to use lease financing to repay the emergency apportionments made from the State's general fund. The emergency apportionment made to the Vallejo City Unified School District is considered an interim loan and must be repaid with the proceeds from lease financing.

The lease financing is made available by the California Infrastructure and Economic Development Bank (I-Bank) and the term cannot exceed 20 years. I-Bank issues the bonds to finance the emergency apportionments and related costs. In December 2005, I-Bank issued bonds to reduce or eliminate the initial loans, as identified in Figure 3.

Lease financing payments for Vallejo City Unified School District, West Contra Costa Unified School District, and Oakland Unified School District are due monthly over a seven-month period, from July through January of each fiscal year. The principal payments for these three districts are due annually on August 15.

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

Figure 3

DISTRICTS WITH OUTSTANDING LOANS (in millions)							
Fiscal Year	School District	Initial Loan			Lease Revenue Bonds¹		
		Amount of Loan	Out-standing Balance	Final Repay-ment Date	Amount Issued	Out-standing Balance	Final Repay-ment Date
1990-91	West Contra Costa Unified	\$28.5	—	12/08/2005	\$15.7	\$13.6	08/15/2018
2001-02	Emery Unified	\$2.3	\$1.0	09/30/2021	—	—	
2002-03	West Fresno Elementary	\$2.0	\$0.7	12/30/2013	—	—	
2002-03	Oakland Unified	\$100.0	\$32.0	06/05/2026	\$59.6 ²	\$59.6	08/15/2023
2003-04	Vallejo City Unified	\$60.0	\$31.8	06/24/2024	\$21.2	\$19.5	08/15/2024

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

² Series 2008 Bonds were issued on April 2008.

General Fund Revenues and Expenditures

For FY 2007-08, school district general fund revenues exceeded expenditures by \$0.724 billion (Figure 4).

Figure 4

SCHOOL DISTRICT GENERAL FUND REVENUES AND EXPENDITURES (in billions)									
	Fiscal Years								
	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Revenues	\$38.793	\$44.262	\$45.323	\$44.939	\$46.159	\$49.643	\$51.964	\$51.379	\$52,305
Expenditures	(37.690)	(42.804)	(44.342)	(44.774)	(46.372)	(48.702)	(50.724)	(48.754)	(51,581)
Surplus/(Deficit)	\$ 1.103	\$ 1.458	\$.981	\$.165	\$ (.213)	\$.941	\$ 1.240	\$ 2.625	\$0.724

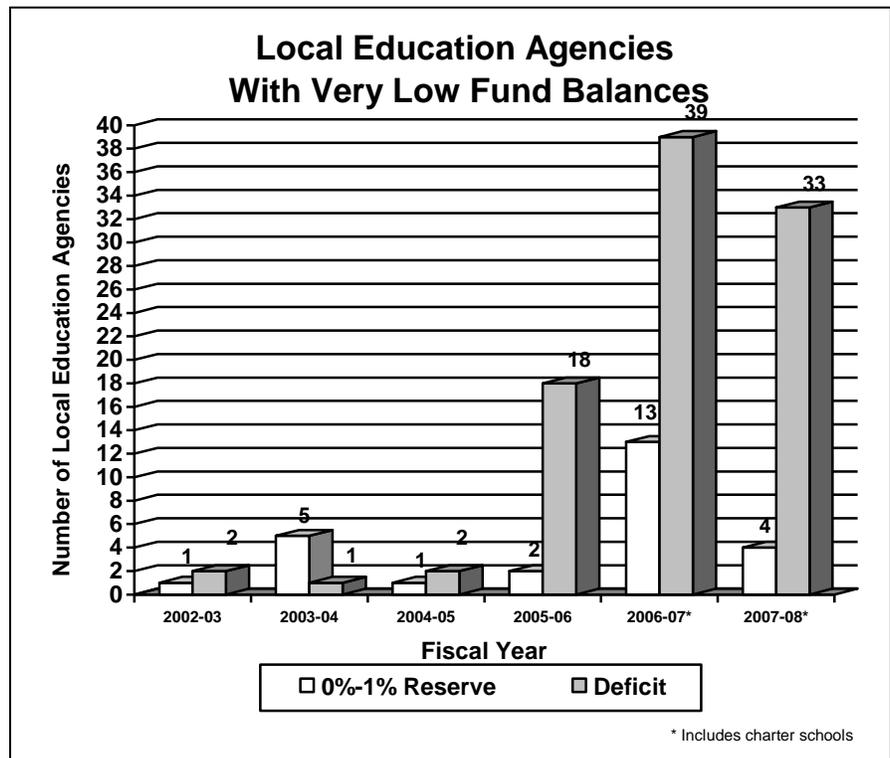
The cumulative fund balance or surplus for LEAs totaled \$7.985 billion at the end of FY 2007-08, an increase of \$0.316 billion from the prior year's total of \$7.669 billion. As part of the total fund balance, the LEAs are to maintain reserves as a defense against economic uncertainties. The California Department of Education issues guidelines regarding the amount of reserve each district should maintain, based on its total average daily attendance.

General Fund Balances

Number of LEAs with deficient fund balances decreased

The number of LEAs with deficient fund balances decreased from 52 in the prior year to 37 (28.8%). Of the 37 LEAs, 35 were charter schools. There also was a 15.4% decrease in LEAs with deficit fund balances (33 in FY 2007-08 compared with 39 in FY 2006-07) (see Figure 5).

Figure 5



Long-Term Borrowing

LEAs' issuance of long-term financing decreased

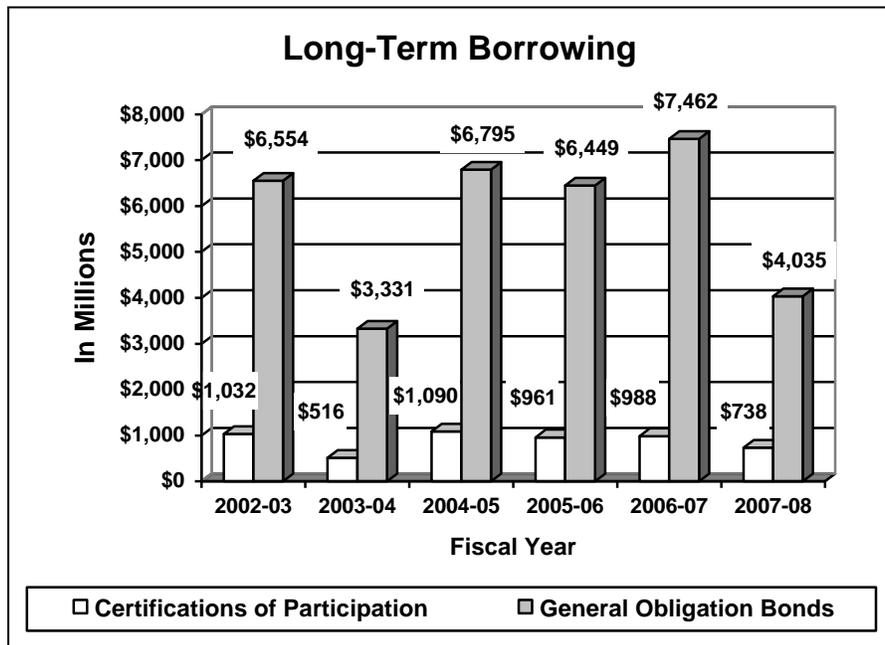
Generally, long-term debt is issued by LEAs to: fund the purchase, construction, or lease of buildings and equipment; refinance existing debt; or buy land for future use. In the past, it was not uncommon for financially troubled districts to issue long-term debt in order to finance current operations.

During FY 2007-08, LEAs issued \$4.989 billion in long-term debt, a decrease of \$4.047 billion over the prior year (44.78%). In FY 2007-08, the total number of LEAs that issued debt decreased by 29.43% over the prior fiscal year.

- **Certificates of Participation (\$738 million, or 14.80%)**—A financing technique that provides long-term financing through leasing of school facilities, such as buildings, with either an option to purchase or a conditional sales agreement.
- **General Obligation Bonds (\$4.035 billion, or 80.87%)**—Bonds secured by the full faith and credit of the district. These long-term obligations are generally issued at more favorable rates than are other types of debt because of their preferred status; that is, they are secured by the taxing authority of the district.
- **Limited Tax Obligation Bond Instruments and Other Debt (\$216 million, or 4.33%)**—A financing technique that provides long-term financing of capital projects. The bonds are repaid from incremental taxes on property in a redevelopment area.

LEAs issued \$4.773 billion in certificates of participation and general obligation bonds during FY 2007-08, a decrease of \$3.677 billion (43.51%) from the \$8.450 billion in the prior year (Figure 6).

Figure 6



Financing through certificates of participation decreased by \$250 million and financing through general obligation bonds decreased by \$3.427 billion over the prior year. The certificates of participation were issued by 55 LEAs during FY 2007-08.

Certificates of participation accounted for 14.80% of long-term borrowing in fiscal year 2007-08, a 25.30% decrease from the previous year. In comparison, general obligation bonds accounted for 80.87% of long-term borrowing in fiscal year 2007-08, a decrease of 45.93% from the previous year.

Lottery Revenues

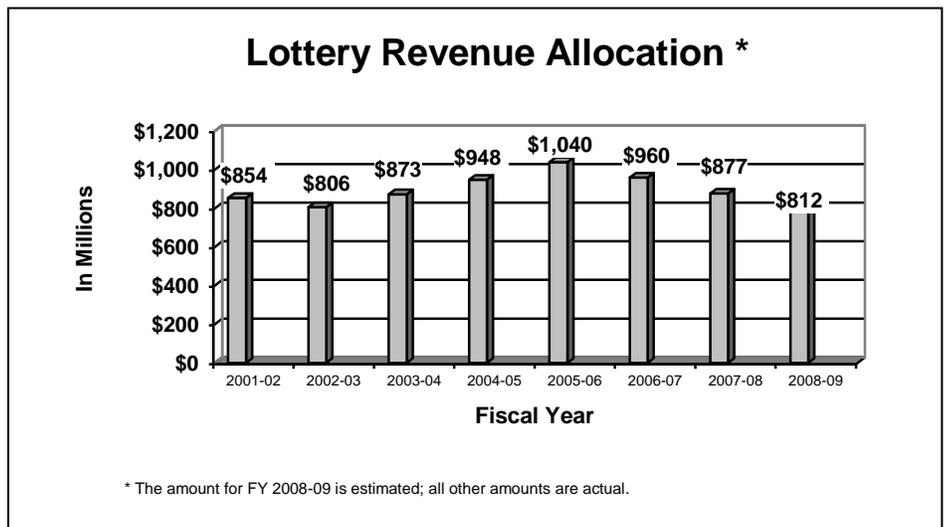
The allocation of Lottery revenues to K-12 school districts is based on a percentage of total Lottery sales for the year. Under state law, a minimum of 34% of Lottery sales must be distributed to school districts, community colleges, and other educational agencies. The division of this 34% between K-12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

*Lottery revenues
projected to decrease*

The amount is distributed to each district based on its K-12 average daily attendance. The data regarding sales and allocations are maintained by the State Controller’s Office and the California State Lottery.

Revenue for FY 2008-09 is projected to decrease by 7.4% as compared with fiscal year 2007-08, down to \$812 million³—approximately \$137 per K-12 average daily attendance (Figure 7).

Figure 7



³ The lottery revenue information is obtained from the California Department of Education, based on State Lottery projections.

Program Compliance

Overview

The annual audit reports by CPAs are the primary source of information regarding a LEAs compliance with state and federal requirements. The State Controller's Office reports on program compliance issues as part of its review of annual audit reports, the overall certification process, and associated follow-up actions. In addition, the State Controller's Office conducts compliance audits.

Compliance Findings

Independent auditors determine whether the local education agencies, 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 a local education agency is not in compliance with applicable laws and regulations, the findings are communicated by the independent auditors in the audit report.

The number of compliance findings contained in the FY 2007-08 LEA financial reports submitted by Certified Public Accountants (CPAs) decreased over the prior year. There were 946 compliance findings in FY 2007-08, a 10.0% decrease from the 1,052 reported in FY 2006-07 (see Appendix C). The number of attendance accounting findings decreased by 54 (from 292 to 238, or 18.5%) from the prior year.

Some of the problems identified in the compliance findings may have a fiscal impact on district operations, as they may result in a loss of state and federal funding. Of the 946 audit findings, 850 (89.9%) pertained to state programs and requirements and 96 (10.1%) pertained to federal programs and requirements (see Figure 8). Attendance-related findings accounted for 25.2% of compliance findings. The majority of the attendance findings, accounting for approximately 54.8% of all attendance findings, were related to:

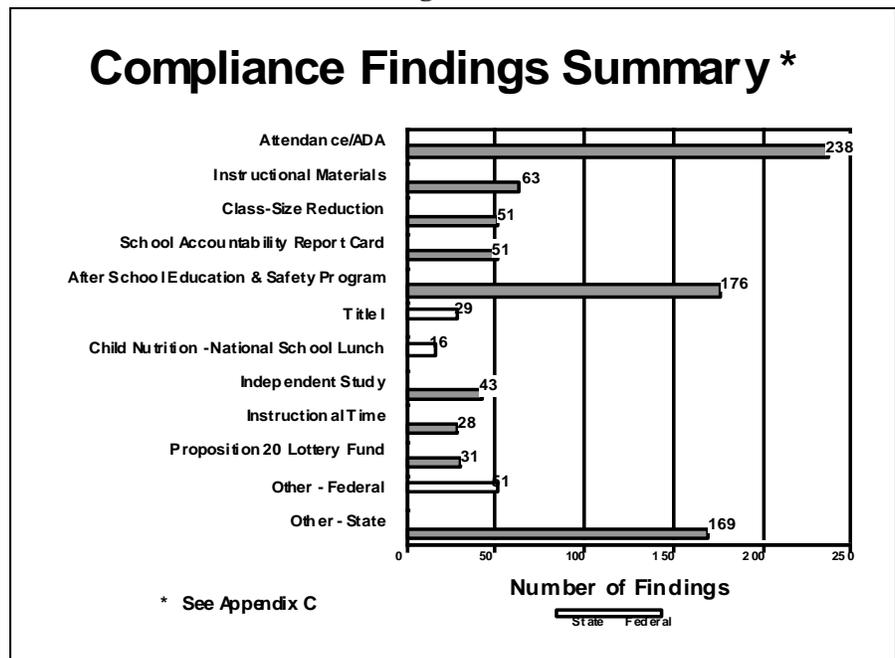
- Overstatement of ADA;
- Attendance reports not reconciling to supporting documentation;
- Attendance reports being inaccurate or incomplete; and
- Understatement of ADA.

The audit reports disclosed 176 findings pertaining to the After School Education and Safety Program. This is the first year that the After School Education and Safety (ASES) Program was included in K-12 audit guide. This program funds the establishment of local after school education and enrichment programs. The types of findings are as follows:

- Reported number of students served were not supported by written records or did not reconcile to supporting documents;
- LEAs did not establish policies regarding reasonable early daily release of pupils from the program;
- LEAs did not establish policies regarding reasonable late daily arrival of pupils to the program;
- Indirect costs were overstated;
- Matching requirements were not met;
- Administrative costs exceeded 15% of state funding; and
- Other findings.

The FY 2007-08 LEA audit reports also found that 4.5% (51 of 1,109) of the 869 elementary school districts and 240 charter schools participating in the Class-Size Reduction Program did not fully comply with program reporting requirements. The audits identified 51 findings relating to the Class-Size Reduction Program.

Figure 8



Audit Resolution Process

Education Code section 41020(n) requires the State Controller to annually select a sample of county offices of education for which to perform a follow-up review of the audit resolution process. The scope of the reviews was limited to determining whether each county office of education followed its audit resolution process, resolved all of the audit findings, followed up on the district's corrective action plans, and notified the Superintendent of Public Instruction and the State Controller of its results.

In FY 2008-09, the State Controller's Office performed reviews of the audit resolution processes of three county offices of education.

Our reviews disclosed that the three county offices of education followed their audit resolution processes for FY 2005-06 and FY 2006-07.

Quality Control

Overview

The State Controller, under Education Code section 14504, reviews and certifies the annual independent audit reports submitted by each local education agency (school district, county office of education, and charter school) for compliance with audit guidelines set out in the Standards and Procedures for Audits of California K-12 Local Educational Agencies (K-12 Audit Guide).

Audit Report Certifications

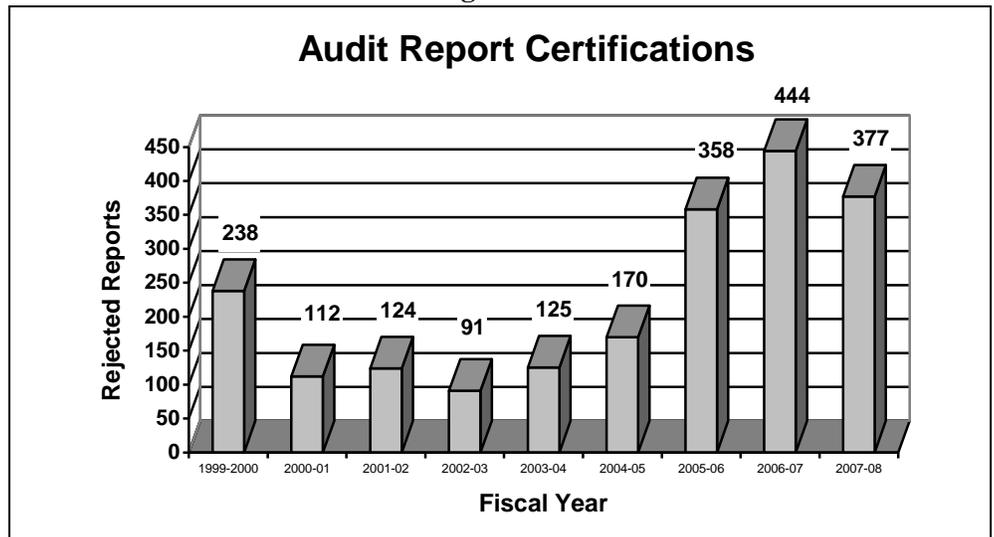
The State Controller’s Office determines whether audit reports conform to reporting provisions of the K-12 Audit Guide and notifies each local education agency, independent auditor, and the State Superintendent of Public Instruction as to whether its report has been accepted or rejected, based on its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

For fiscal year (FY) 2007-08, the SCO accepted 72% of the audit reports; the remaining 28% were rejected upon initial review. The State Controller’s Office subsequently accepted the rejected audit reports after the independent auditors made the requested corrections. Rejection of an auditor’s report is accompanied by a penalty whereby the independent auditor does not receive its 10% service fee; this fee is retained by the local education agency until the audit report has been corrected and certified by the State Controller’s Office. In addition, if an independent auditor has had a report rejected (and has not subsequently corrected it) for the same local education agency for two consecutive years, the auditor may be referred to the State Board of Accountancy for professional review.

Decrease in rejected audit reports

The number of rejected reports decreased by 67 over the prior year, from 444 to 377, a 15% decrease (Figure 9). Of the 377 reports rejected, 172 were charter school reports.

Figure 9



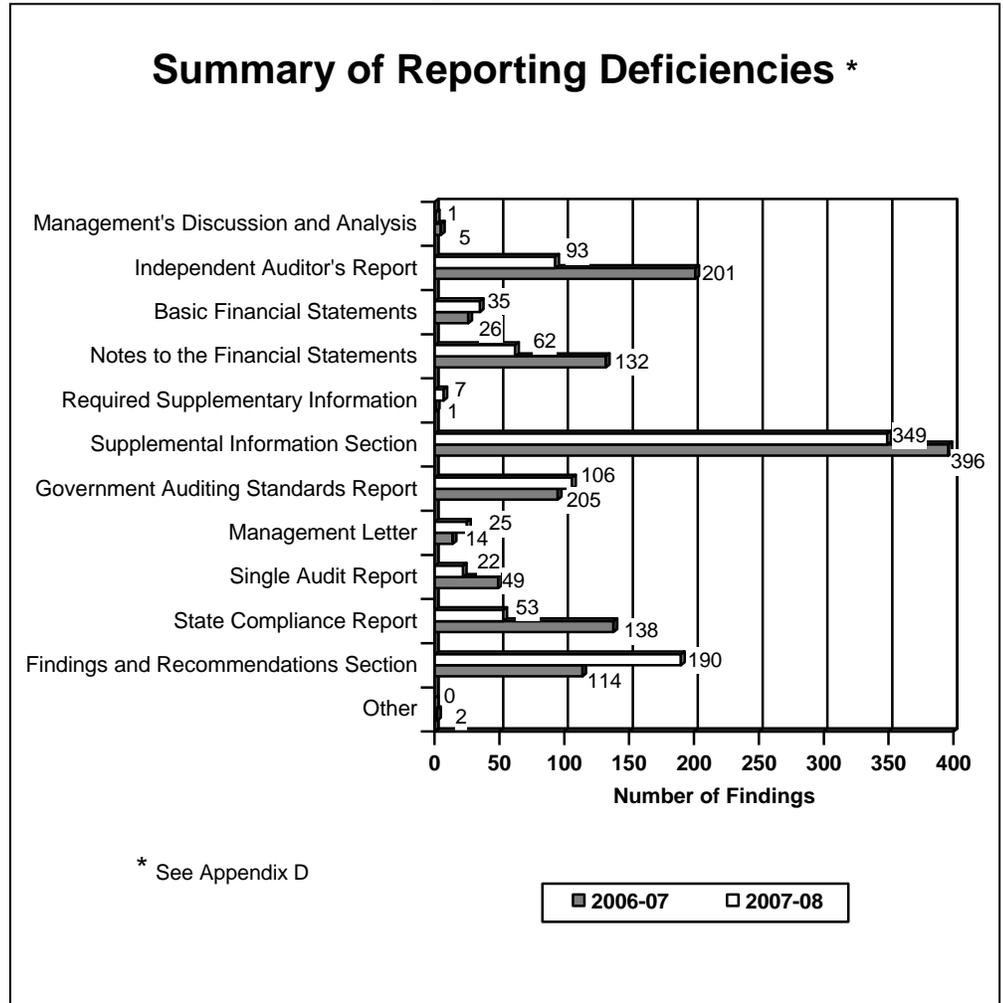
Reporting Deficiencies

Reporting deficiencies decreased

Upon initial review, the State Controller’s Office certified 977 (72%) of the 1,354 audit reports submitted by independent CPAs for FY 2007-08.

There were 943 reporting deficiencies, a decrease of 230 from 1,173 in the prior year (Figure 10).

Figure 10

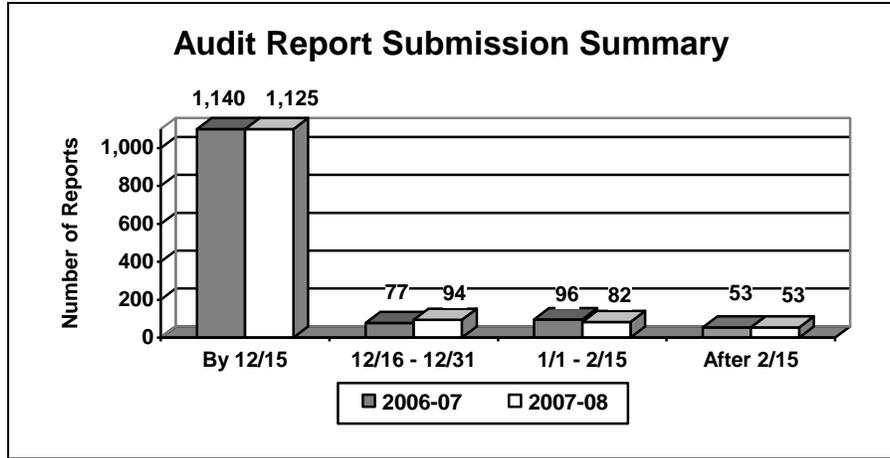


Timely Submissions

Annual reports not submitted on time

Audit reports for the preceding fiscal year must be filed with the State Controller’s Office, the California Department of Education, and the county superintendent of schools by December 15. Filing deadline extensions may be granted, but only under extraordinary circumstances.

Figure 11



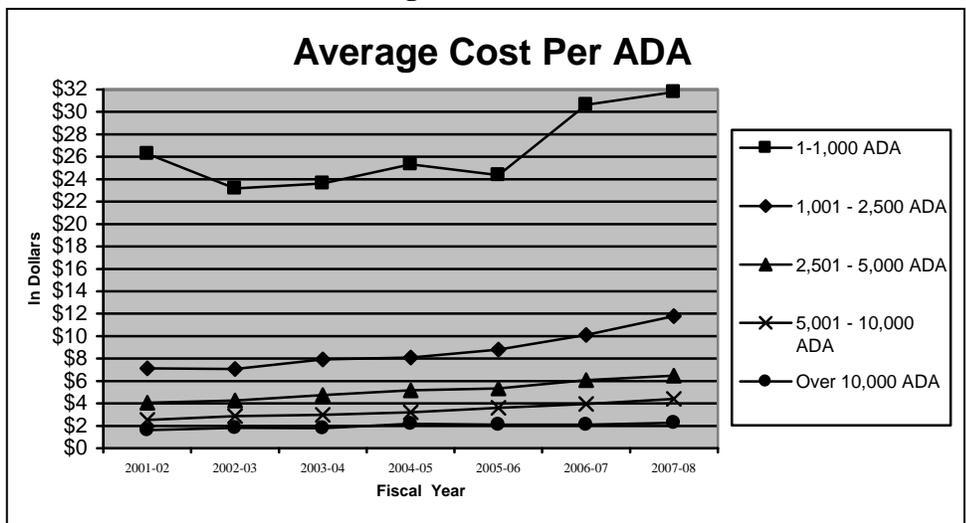
The number of annual school district, county office of education, and charter school audit reports submitted by the deadline decreased from the previous year (Figure 11). Approximately 1,125, or 81.2%, of the 1,385 expected LEA reports were received by the December 15 deadline.

Average Audit Cost per ADA

Average audit costs increased

The State Controller’s Office maintains a database of information pertaining to audit contracts between LEAs and independent auditors. From that database, the State Controller’s Office determined the total audit costs and cost per unit of ADA for LEAs’ annual audits. Audit costs for the FY 2007-08 audits totaled \$26.4 million, an increase of \$2.44 million, or 10.2%, over total audit costs of \$23.9 million for FY 2006-07. The largest increase of 16.3% (\$1.65), was for LEAs with from 1,001 to 2,500 ADA (Figure 12).

Figure 12



Quality Control Reviews

Under Education Code section 14504.2, the State Controller's effort in performing quality control reviews was expanded to include LEAs that have received a negative budget/interim report certification and school districts that have a going concern issue, as determined by the county superintendent. Education Code section 41020(f)(1) requires the State Controller's Office to publish a directory of CPAs whom it deems qualified to conduct audits of LEAs. This directory is published by December 31 of each year.

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

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

- Generally Accepted Government Auditing Standards (GAGAS);
- Generally Accepted Auditing Standards (GAAS);
- Standards and Procedures for Audits of California Local Educational Agencies (K-12 Audit Guide); and
- Office of Management and Budget (OMB) Circular A-133.

The State Controller's Office's opinion regarding the quality of the audits is classified in one of the following categories, based on whether the independent auditor performed the audit in accordance with auditing standards and state and federal requirements:

- If the audit was performed in accordance with the standards and requirements, the State Controller's Office's opinion would be that the independent auditor fully complied with auditing standards and state and federal requirements.
- If the audit was performed in accordance with the majority of the standards and requirements, the State Controller's Office's opinion would be that the independent auditor complied with the majority of auditing standards and state and federal requirements.
- If the audit was performed in accordance with some elements of the standards and requirements, but the majority of standards and requirements were not met, the State Controller's Office's opinion would be that the independent auditor complied with some elements of the standards and requirements, but that the majority of auditing standards and federal and state requirements were not met.
- If the audit was not performed in accordance with the standards and requirements, the State Controller's Office's opinion would be that the independent auditor did not comply with auditing standards and state and federal requirements. Such an opinion would result in a referral of the independent auditor to the California State Board of Accountancy.

Our quality control reviews disclosed deficiencies in the following areas:

Planning:

- Engagement letters did not contain all of the required elements or language.
- The audit contract did not contain required withholding provisions.
- For new audits, no documentation of the required communication with the predecessor auditor.
- No documentation of a discussion among engagement personnel regarding fraud.
- No documentation of follow up on prior audit findings.

Internal Control:

- Assessment of risk of material misstatement not adequately documented.
- No assessment of control risk.
- Internal control questionnaires not updated to reflect current year conditions.
- No documentation of how the use of information technology could impact controls.

Fieldwork and Audit Documentation:

- Sampling methodology not documented.
- Analytical review expectations and results not documented.
- Legal representation letters not obtained.
- No evaluation of the entity's ability to continue as a going concern.

State Compliance Testing:

- Current K-12 Audit Guide not used in performing state compliance procedures.
- Required procedures not performed for some programs.
- Exceptions identified in the working papers not reported.
- Samples selected not representative of the population.
- Sample selection was not random as required by the K-12 Audit Guide.
- No documentation of audit work performed for some state compliance requirements.

Reporting:

- Schedule of Financial Trends and Analysis did not include a comparison of available reserves percentage to state recommended available reserves percentage.
- Report on State Compliance listed programs that were not applicable for the year being audited, or included the incorrect number of procedures.

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	2007-08 Average Daily Attendance	2008-09 Interim Report		2007-08 Interim Report Second
				First	Second	
Alameda County:						
1. Hayward Unified	No	No	23,811	P	Q	P
2. Newark Unified	No	No	7,363	Q	P	P
3. Oakland Unified	1	1	1	Q	Q	Q
4. Piedmont City Unified	No	No	2,595	P	Q	Q
5. Pleasanton Unified	No	No	15,271	Q	Q	P
Amador County:						
6. Amador County Office of Education	No	No	303	Q	Q	Q
7. Amador County Unified	No	No	4,213	Q	Q	Q
Butte County:						
8. Chico Unified	Yes	Yes	12,251	N	N	N
9. Feather Falls Union Elementary	No	No	29	Q	P	P
Calaveras County:						
10. Mark Twain Union Elementary	No	No	770	Q	Q	P
Contra Costa County:						
11. John Swett Unified	No	No	1,632	P	Q	P
12. Knightsen Elementary	No	No	504	Q	Q	P
13. Martinez Unified	No	No	4,919	Q	Q	Q
14. Mt. Diablo Unified	No	No	35,634	Q	P	Q
15. West Contra Costa Unified	No	No	29,488	Q	Q	Q
El Dorado County:						
16. Black Oak Mine Unified	No	No	1,806	P	Q	P
17. Gold Trail Union Elementary	Yes	Yes	532	Q ³	Q	P
18. Mother Lode Union Elementary	No	No	1,383	Q ³	P	P
Fresno County:						
19. American Union Elementary	No	No	317	Q	P	P
20. Burrel Union Elementary	No	No	107	P	Q	P
21. Golden Plains Unified	No	No	1,798	Q	Q	Q
22. Orange Center Elementary	No	Yes	325	P	N	P
23. Parlier Unified	No	No	3,269	Q	Q	Q
24. West Park Elementary	No	No	757	Q	P	P
Glenn County:						
25. Willows Unified	No	No	1,640	N ³	P	N ³
Humboldt County:						
26. Eureka City Unified	No	No	5,185	Q	Q	N
27. Loleta Union Elementary	No	No	113	Q	Q	P
28. Rohnerville Elementary	No	No	640	Q	Q	Q
29. Southern Humboldt Joint Unified	No	No	720	Q	Q	P
Imperial County:						
30. Calexico Unified	No	No	9,263	Q	Q	Q
Kern County:						
31. El Tejon Unified	No	No	1,236	Q	Q	Q
32. Muroc Joint Unified	No	Yes ²	1,897	Q	Q	Q
33. Southern Kern Unified	No	No	3,369	Q	Q	P
34. Taft City Elementary	No	No	1,992	Q	P	P

Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2007-08 Average Daily Attendance	2008-09 Interim Report		2007-08 Interim Report
				First	Second	Second
Kings County:						
35. Delta View Joint Union Elementary	No	No	93	Q	Q	P
36. Reef-Sunset Unified	No	No	2,446	P	Q	P
Lake County:						
37. Lake County Office of Education	No	No	486	P	Q	P
Lassen County:						
38. Shaffer Union Elementary	No	No	299	P	Q	P
39. Westwood Unified	No	Yes	306	N	N	Q
Los Angeles County:						
40. Centinela Valley Union High	Yes	Yes ²	8,714	N ³	Q ³	N ³
41. Covina-Valley Unified	No	No	16,273	P	Q	P
42. El Rancho Unified	No	No	11,855	Q	N	N
43. Hawthorne Elementary	No	No	8,798	Q	Q	Q
44. Inglewood Unified	No	No	15,784	P	Q ³	P
45. Las Virgenes Unified	No	Yes ²	11,382	P	Q	Q
46. Los Angeles Unified	1	1	1	Q	Q	Q
47. Los Nietos Elementary	No	No	2,020	P	Q	P
48. Lynwood Unified	No	No	17,046	Q	P	P
49. Pomona Unified	No	No	34,839	P	Q	Q
50. South Pasadena Unified	No	No	4,119	Q	P	P
51. Whittier City Elementary	No	No	6,458	Q	Q	Q
52. Wilsona Elementary	No	No	1,776	Q	N ³	P
Mendocino County:						
53. Anderson Valley Unified	No	No	519	Q	P	Q
54. Laytonville Unified	No	No	355	P	Q	P
55. Potter Valley Community Unified	No	No	257	P	Q	Q
56. Ukiah Unified	No	No	6,044	P	Q	Q
57. Willits Unified	No	No	1,708	P	Q	Q
Merced County:						
58. Atwater Elementary	No	No	4,416	P	Q	Q
Monterey County:						
59. King City Joint Union High	Yes	Yes ²	2,221	N	N	N
60. King City Union Elementary	Yes	Yes ²	2,309	N	N	N
61. Monterey Peninsula Unified	No	No	11,960	Q	P	P
62. North Monterey County Unified	No	No	4,655	Q	P	P
Orange County:						
63. Garden Grove Unified	No	No	49,935	P	Q	Q
64. Santa Ana Unified	No	No	52,184	P	Q	P
Placer County:						
65. Colfax Elementary	No	No	367	Q	P	Q
66. Loomis Union Elementary	No	No	2,056	Q ³	P	P
67. Placer Hills Union Elementary	No	No	1,142	Q	Q	Q
68. Western Placer Unified	No	No	5,895	Q	P	Q
Riverside County:						
69. Banning Unified	No	No	4,593	Q	Q	P
70. Moreno Valley Unified	No	No	35,044	Q	P	Q
71. Palo Verde Unified	No	No	3,385	Q	P	P
72. Val Verde Unified	No	No	18,329	P	N	P

Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2007-08 Average Daily Attendance	2008-09 Interim Report		2007-08 Interim Report Second
				First	Second	Second
Sacramento County:						
73. Elk Grove Unified	No	No	59,760	P	Q	Q
74. Folsom-Cordova Unified	No	No	18,557	P	Q	P
75. Natomas Unified	No	No	9,550	Q	Q	Q
76. Sacramento City Unified	No	No	47,597	Q	Q	Q ³
77. San Juan Unified	No	No	47,618	Q	Q	Q
San Benito County:						
78. Aromas/San Juan Unified	No	Yes ²	1,238	N	N	N
San Bernardino County:						
79. Lucerne Valley Unified	No	Yes ²	1,019	Q	Q	Q ³
80. Needles Unified	No	No	963	Q	P	Q
81. Rim of the World Unified	No	No	4,793	P	Q	Q
82. Yucaipa-Calimesa Joint Unified	No	No	10,074	P	Q	P
San Diego County:						
83. Julian Union High	No	Yes ²	192	N	N	P
84. La Mesa-Spring Valley Elementary	No	No	12,470	P	Q	Q
85. San Marcos Unified	No	No	16,466	P	Q	P
86. San Ysidro Elementary	No	No	4,684	P	Q	Q
San Joaquin County:						
87. Tracy Joint Unified	No	No	16,077	Q	Q	Q
San Luis Obispo County:						
88. Atascadero Unified	No	No	4,937	Q	Q	Q
89. Lucia Mar Unified	No	No	10,726	Q	Q	Q
90. Paso Robles Joint Unified	No	No	6,736	P	Q	Q
91. San Miguel Joint Union Elementary	No	No	494	P	Q	Q
92. Shandon Joint Unified	No	Yes	321	Q	Q	Q
San Mateo County:						
93. La Honda-Pescadero Unified	No	No	355	Q ³	N ³	P
94. San Carlos Elementary	No	No	2,775	Q	P	P
Santa Barbara County:						
95. Lompoc Unified	No	No	10,089	Q	Q	P
96. Los Alamos Elementary	No	No	218	Q ³	P	P
Santa Clara County:						
97. Berryessa Union Elementary	No	No	8,112	P	Q	P
98. Cupertino Union Elementary	No	No	16,964	Q	Q	P
99. Evergreen Elementary	No	Yes	12,929	P	Q	P
100. Franklin-McKinley Elementary	No	No	9,470	P	Q	Q
101. Milpitas Unified	No	No	12,662	P	Q	P
102. Mt. Pleasant Elementary	No	No	2,847	P	Q	Q
103. Orchard Elementary	No	No	802	P	Q	Q
Santa Cruz County:						
104. Pajaro Valley Unified	No	No	19,411	N	N	N
105. Santa Cruz City Schools	No	No	7,180	N ³	N	Q
Shasta County:						
106. Cascade Union Elementary	No	No	1,434	Q	Q	Q
107. Cottonwood Union Elementary	No	No	1,089	Q ³	Q	Q ³
108. Grant Elementary	No	No	589	Q	Q	Q
109. Pacheco Union Elementary	No	No	644	Q	Q	Q

Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2007-08 Average Daily Attendance	2008-09 Interim Report		2007-08 Interim Report
				First	Second	Second
Solano County:						
110. Dixon Unified	Yes	Yes	440	N	N	N
111. Travis Unified	No ₁	Yes ² ₁	5,102 ₁	N	N	Q
112. Vallejo City Unified				N	N	N
Sonoma County:						
113. Alexander Valley Union Elementary	No	Yes	118	P	Q ³	P
114. Cotati-Rohnert Park Unified	No	Yes ²	6,365	Q	P	P
115. Forestville Union Elementary	No	No	638	Q	Q ³	Q
116. Geyserville Unified	No	No	267	Q	Q	P
117. Healdsburg Unified	No	No	2,169	N	N	Q
118. Piner-Olivet Union Elementary	No	No	1,631	P	N ³	Q
119. West Sonoma County Union High	No	No	2,245	Q	Q	P
Stanislaus County:						
120. Knights Ferry Elementary	No	No	137	Q	P	P
Tehama County:						
121. Antelope Elementary	No	No	638	P	Q	P
122. Flornoy Union Elementary	No	No	25	P	Q	P
123. Gerber Union Elementary	No	No	412	P	Q	P
124. Red Bluff Joint Union High	No	No	1,894	P	Q	P
125. Reeds Creek Elementary	No	No	145	Q	P	P
Tulare County:						
126. Stone Corral Elementary	No	Yes ²	127	N	Q	P
Tuolumne County:						
127. Chinese Camp Elementary	No	No	13	N	N	Q ³
128. Curtis Creek Elementary	No	No	600	Q	Q	Q ³
129. Jamestown Elementary	No	No	469	Q	P	P
Ventura County:						
130. Ojai Unified	No	No	3,003	Q	P	P
Yuba County:						
131. Wheatland Elementary	No	No	1,235	Q	Q ³	Q

Legend: P = Positive Q = Qualified N = Negative

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

² Disclosed in the Schedule of Findings and Questioned Costs.

³ County office of education changed certification.

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

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

Appendix B (continued)

County	Analysis of Key Indicators for Financial Difficulties									Independent Position Control ⁹
	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	
School District/County Office										
Glenn County:										
25. Willows Unified	N/P	✓	✓	✓	✓		✓			✓
Humboldt County:										
26. Eureka City Unified	Q/Q	✓	✓	✓	✓		✓	✓	✓	
27. Loleta Union Elementary	Q/Q	✓	✓	✓	✓	✓	✓	✓	✓	
28. Rohnerville Elementary	Q/Q		✓	✓	✓	✓	✓	✓		
29. Southern Humboldt Joint Unified	Q/Q	✓	✓	✓	✓		✓		✓	
Imperial County:										
30. Calexico Unified	Q/Q	✓	✓	✓	✓	✓	✓	✓	✓	
Kern County:										
31. El Tejon Unified	Q/Q	✓	✓	✓		✓		✓		✓
32. Muroc Join Unified	Q/Q	✓	✓	✓	✓	✓		✓	✓	✓
33. Southern Kern Unified	Q/Q	✓	✓	✓	✓	✓	✓	✓		✓
34. Taft City Elementary	Q/P	✓	✓	✓	✓	✓	✓	✓		✓
Kings County:										
35. Delta View Joint Union Elem.	Q/Q	✓	✓	✓	✓		✓		✓	✓
36. Reef-Sunset Unified	P/Q	✓	✓	✓		✓	✓	✓	✓	✓
Lake County:										
37. Lake County Office of Education	P/Q	✓	✓	✓	✓	✓	✓	✓		✓
Lassen County:										
38. Shaffer Union Elementary	P/Q	✓	✓	✓	✓	✓	✓		✓	✓
39. Westwood Unified ¹⁰	N/N									
Los Angeles County:										
40. Centinela Valley Union High	N/Q	✓	✓	✓	✓	✓		✓		
41. Covina-Valley Unified	P/Q	✓	✓	✓	✓	✓	✓		✓	✓
42. El Rancho Unified	Q/N	✓	✓	✓	✓	✓	✓	✓	✓	✓
43. Hawthorne Elementary	Q/Q	✓	✓	✓	✓	✓		✓	✓	✓
44. Inglewood Unified	P/Q	✓	✓	✓	✓		✓	✓	✓	✓
45. Las Virgenes Unified	P/Q	✓	✓	✓		✓	✓	✓	✓	✓
46. Los Angeles Unified	Q/Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
47. Los Nietos Elementary	P/Q		✓		✓		✓	✓	✓	✓
48. Lynwood Unified	Q/P	✓	✓		✓	✓		✓	✓	✓

Appendix B (continued)

County	Analysis of Key Indicators for Financial Difficulties									
	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	Independent Position Control ⁹
School District/County Office										
Los Angeles County: (continued)										
49. Pomona Unified	P/Q	✓	✓	✓	✓	✓			✓	
50. South Pasadena Unified	Q/P	✓	✓	✓	✓	✓		✓		
51. Whittier City Elementary	Q/Q	✓	✓	✓	✓	✓	✓	✓	✓	
52. Wilsona Elementary	Q/N		✓	✓	✓	✓	✓	✓	✓	✓
Mendocino County:										
53. Anderson Valley Unified	Q/P	✓	✓	✓	✓	✓	✓	✓	✓	✓
54. Laytonville Unified	P/Q	✓		✓		✓		✓	✓	✓
55. Potter Valley Community Unified	P/Q	✓	✓	✓		✓		✓	✓	
56. Ukiah Unified	P/Q	✓	✓			✓		✓	✓	✓
57. Willits Unified	P/Q	✓	✓	✓	✓	✓			✓	✓
Merced County:										
58. Atwater Elementary	P/Q	✓	✓	✓	✓	✓	✓	✓	✓	
Monterey County:										
59. King City Joint Union High	N/N	✓	✓	✓	✓	✓		✓	✓	✓
60. King City Union Elementary	N/N	✓	✓	✓	✓	✓	✓	✓	✓	✓
61. Monterey Peninsula Unified	Q/P	✓	✓	✓	✓	✓	✓	✓	✓	✓
62. North Monterey County Unified	Q/P	✓		✓	✓	✓	✓	✓	✓	✓
Orange County:										
63. Garden Grove Unified	P/Q	✓	✓	✓	✓		✓	✓		
64. Santa Ana Unified	P/Q		✓	✓	✓		✓	✓		✓
Placer County:										
65. Colfax Elementary	Q/P	✓	✓	✓	✓		✓	✓		
66. Loomis Union Elementary	Q/P	✓	✓	✓	✓	✓	✓	✓	✓	✓
67. Placer Hills Union Elementary	Q/Q	✓	✓	✓	✓	✓		✓	✓	
68. Western Placer Unified	Q/P	✓	✓	✓	✓	✓		✓		
Riverside County:										
69. Banning Unified	Q/Q	✓	✓	✓	✓	✓	✓		✓	✓
70. Moreno Valley Unified	Q/P	✓	✓	✓	✓	✓			✓	✓
71. Palo Verde Unified	Q/P	✓	✓	✓	✓	✓	✓	✓	✓	
72. Val Verde Unified	P/N	✓	✓	✓	✓	✓	✓	✓		

Appendix B (continued)

County	Analysis of Key Indicators for Financial Difficulties									
	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	Independent Position Control ⁹
School District/County Office										
Sacramento County:										
73. Elk Grove Unified	P/Q	✓	✓		✓	✓		✓		
74. Folsom-Cordova Unified	P/Q	✓	✓			✓		✓		✓
75. Natomas Unified	Q/Q	✓	✓	✓	✓	✓	✓	✓		
76. Sacramento City Unified	Q/Q	✓	✓	✓	✓	✓	✓		✓	
77. San Juan Unified	Q/Q	✓	✓	✓	✓	✓	✓		✓	
San Benito County:										
78. Aromas-San Juan Unified	N/N	✓	✓	✓	✓	✓	✓		✓	✓
San Bernardino County:										
79. Lucerne Valley Unified	Q/Q	✓	✓	✓	✓	✓	✓		✓	
80. Needles Unified	Q/P	✓	✓		✓	✓	✓	✓	✓	
81. Rim of the World Unified	P/Q	✓	✓	✓	✓	✓	✓	✓	✓	
82. Yucaipa-Calimesa Joint Unified	P/Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
San Diego County:										
83. Julian Union High	N/N	✓	✓	✓	✓	✓	✓		✓	
84. La Mesa-Spring Valley Elem.	P/Q	✓	✓	✓	✓				✓	✓
85. San Marcos Unified	P/Q	✓	✓	✓	✓	✓	✓			✓
86. San Ysidro Elementary	P/Q	✓	✓	✓	✓	✓		✓	✓	✓
San Joaquin County:										
87. Tracy Joint Unified	Q/Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
San Luis Obispo County:										
88. Atascadero Unified	Q/Q	✓	✓	✓	✓	✓	✓	✓	✓	
89. Lucia Mar Unified	Q/Q	✓	✓	✓	✓		✓	✓	✓	✓
90. Paso Robles Joint Unified	P/Q	✓	✓	✓	✓		✓			✓
91. San Miguel Joint Union Elem.	P/Q	✓	✓		✓	✓				
92. Shandon Joint Unified	Q/Q	✓	✓	✓	✓	✓	✓		✓	✓
San Mateo County:										
93. La Honda-Pescadero Unified	Q/N	✓		✓	✓	✓	✓	✓	✓	✓
94. San Carlos Elementary	Q/P	✓		✓	✓	✓		✓		✓
Santa Barbara County:										
95. Lompoc Unified	Q/Q	✓	✓	✓	✓		✓	✓	✓	✓
96. Los Alamos Elementary	Q/P							✓		✓

Appendix B (continued)

County	Analysis of Key Indicators for Financial Difficulties									
	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	Independent Position Control ⁹
School District/County Office										
Santa Clara County:										
97. Berryessa Union Elementary	P/Q	✓	✓	✓	✓	✓	✓	✓		✓
98. Cupertino Union Elementary	Q/Q	✓	✓	✓	✓	✓	✓			
99. Evergreen Elementary	P/Q	✓	✓		✓	✓	✓			✓
100. Franklin-McKinley Elementary	P/Q	✓	✓	✓	✓	✓		✓		✓
101. Milpitas Unified	P/Q	✓	✓	✓	✓	✓	✓	✓		✓
102. Mt. Pleasant Elementary	P/Q	✓	✓	✓	✓	✓				✓
103. Orchard Elementary	P/Q	✓	✓			✓				✓
Santa Cruz County:										
104. Pajaro Valley Unified	N/N	✓	✓	✓	✓	✓	✓	✓		✓
105. Santa Cruz City Schools	N/N	✓	✓	✓	✓	✓	✓	✓	✓	
Shasta County:										
106. Cascade Union Elementary	Q/Q	✓	✓	✓	✓	✓	✓	✓	✓	
107. Cottonwood Union Elementary	Q/Q	✓	✓	✓	✓		✓	✓	✓	
108. Grant Elementary	Q/Q	✓	✓		✓	✓				✓
109. Pacheco Union Elementary	Q/Q	✓	✓	✓	✓	✓		✓	✓	
Solano County:										
110. Dixon Unified	N/N	✓	✓	✓	✓	✓	✓	✓	✓	
111. Travis Unified	N/N	✓	✓	✓	✓	✓	✓	✓		
112. Vallejo City Unified	N/N	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sonoma County:										
113. Alexander Valley Union Elem.	P/Q	✓	✓	✓			✓			
114. Cotati-Rohnert Park Unified	Q/P	✓		✓	✓	✓	✓	✓	✓	
115. Forestville Union Elementary	Q/Q	✓	✓	✓	✓			✓	✓	✓
116. Geyserville Unified	Q/Q	✓	✓	✓	✓	✓	✓	✓		
117. Healdsburg Unified	N/N	✓	✓	✓	✓	✓	✓		✓	✓
118. Piner-Olivet Union Elementary	P/N	✓	✓	✓	✓	✓	✓			
119. West Sonoma County Union High	Q/Q	✓	✓	✓	✓	✓	✓	✓	✓	
Stanislaus County:										
120. Knights Ferry Elementary	Q/P	✓			✓	✓	✓			✓

Appendix B (continued)

County	Analysis of Key Indicators for Financial Difficulties									
	1 st /2 nd Certification	Deficit Spending ¹	Revenue Limit ²	Other Expenditures ³	Contributions ⁴	Reserves ⁵	Other Revenues ⁶	Status of Labor Agreements ⁷	Declining Enrollment ⁸	Independent Position Control ⁹
Tehama County:										
121. Antelope Elementary	P/Q	✓	✓	✓	✓	✓	✓	✓		
122. Flournoy Union Elementary	P/Q	✓	✓	✓		✓	✓		✓	✓
123. Gerber Union Elementary	P/Q	✓	✓	✓	✓		✓	✓	✓	✓
124. Red Bluff Joint Union High	P/Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
125. Reeds Creek Elementary	Q/P	✓	✓	✓	✓	✓	✓			✓
Tulare County:										
126. Stone Corral Elementary	N/Q	✓	✓	✓	✓	✓	✓		✓	✓
Tuolumne County:										
127. Chinese Camp Elementary	N/N	✓	✓			✓	✓			✓
128. Curtis Creek Elementary	Q/Q	✓	✓	✓	✓	✓	✓	✓	✓	✓
129. Jamestown Elementary	Q/P	✓	✓	✓		✓	✓	✓	✓	✓
Ventura County:										
130. Ojai Unified	Q/P	✓	✓	✓	✓	✓	✓	✓	✓	✓
Yuba County:										
131. Wheatland Elementary	Q/Q	✓	✓	✓	✓		✓		✓	

Legend: P=Positive Q=Qualified N=Negative

¹ Unrestricted deficit spending exceeded one-third of available reserves in any of the current or two subsequent fiscal years.

² Projected revenue limit for any of the current or two subsequent fiscal years changed by more than 2% since budget adoption of first interim.

³ Projected operating expenditures (e.g., books and supplies) for the current and two subsequent fiscal years changed by more than 5% since budget adoption or first interim.

⁴ Contributions from unrestricted to restricted resources, or transfers to or from the general fund to cover operating deficits changed by more than \$20,000 and more than 5% since budget adoption for any of the current or two subsequent fiscal years.

⁵ Available reserves (e.g., designated for economic uncertainties, undesignated amounts) did not meet minimum requirements for the current and two subsequent fiscal years.

⁶ Projected operating revenues (e.g., federal, other state) for the current and two subsequent fiscal years changed by more than 5% since budget adoption or first interim.

⁷ Salaries and benefit negotiations are unsettled for certificated employees, classified employees, and/or management/supervisor/confidential employees as of budget adoption or second interim projections.

⁸ Enrollment decreased in both the prior and current fiscal years.

⁹ Personnel position control is independent from the payroll system.

¹⁰ The first and second key indicators were unavailable for Westwood Unified.

NOTE: The most common 9 key indicators were displayed on Appendix B.

Appendix C— Summary of Audit Report Compliance Findings

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>	
STATE			
Attendance Requirements	ADA overstated by 0-5 ADA	28	
	ADA overstated by 10-20 ADA	1	
	ADA overstated by 5-10 ADA	7	
	ADA overstated by over 20 ADA	3	
	ADA understated by 0-5 ADA	25	
	ADA understated by 10-20 ADA	2	
	ADA understated by 5-10 ADA	4	
	ADA understated by more than 20 ADA	1	
	Absences were claimed for apportionment	9	
	Attendance accounting system not approved by CDE	5	
	Attendance registers/scantrons not signed by teachers	16	
	Attendance report did not reconcile to supporting documentation	36	
	Attendance report inaccurate/incomplete	24	
	Excused absences – problems with verification procedures/documentation	4	
	Lack of documentation/records	14	
	Other finding	3	
	Teacher not authorized to instruct limited-English-proficient pupils	16	
	Teacher providing instruction outside of credential subject	2	
	Teacher(s) did not possess a valid certification document	7	
	Enrollment is not reconciled to monthly attendance reports	3	
	Excused/unexcused absences improperly recorded	1	
	Kindergarten: retention forms are not maintained and/or properly approved	18	
	Kindergarten retention form did not include required elements	9	
	Adult Education	Attendance accounting deficiency	5
		Attendance report does not reconcile to supporting documentation	5
		Other finding	2
Independent Study	Attendance overstated	12	
	Independent study contract did not include all required elements	21	
	Independent study work samples not maintained	6	
	Other finding	4	
Community Day Schools	Attendance report inaccurate	7	
	Minimum day requirements not met	1	
Continuation Education	Attendance accounting deficiency	15	
	Other finding	1	
Regional Occupational Center/Program	Attendance accounting deficiency	5	
Summer School	Attendance accounting deficiency	17	
Ratios of Administrative Employees to Teachers	Ratio calculation was incorrect	1	
	District has not performed ratio calculation	2	
Annual Instructional Minutes – Classroom Based	Instructional time requirements not met	5	
	Other finding	1	

Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
California School Age Families Education (Cal-SAFE)	Cal-SAFE ADA overstated	9
	Financial report inaccurate/not complete	2
	Other finding	4
Child Development	Other finding	1
Class-Size Reduction	Lack of documentation/records	1
	Number of classes and pupils reported on Form J-7 CSR overstated	23
	Number of classes and pupils reported on Form J-7 CSR understated	26
	Teacher training not complete/not documented	1
Deferred Maintenance	Expenditures not allowable	2
	Matching funding not transferred as of June 30	2
Determination of Funding for Non-classroom-Based Instruction	Other finding	1
Inventory of Equipment	Inventory of equipment not maintained	12
Instructional Time	Instructional time requirements not met	22
	Lack of documentation/records	2
	Other finding	4
Mode of Instruction	Average daily attendance not generated in compliance with requirements	1
Morgan-Hart Class-Size Reduction Program	Number of classes and pupils reported on Form J-9MH-A overstated	3
	Number of classes and pupils reported on Form J-9MH-A understated	8
	Other finding	3
Notification of Right to Elect CalSTRS Membership	CalSTRS membership election form not provided to newly-hired substitute teacher or part-time employee	26
Proposition 20 Lottery Funds	Expenditures not allowable	31
School Accountability Report Card	District did not follow uniform complaint process	13
	School accountability report card not published	9
	Other finding	8
	SARC information inconsistent with complaints related to teacher misassignments or vacancies	1
	SARC information inconsistent with evaluation instrument	20
School Construction Funds	School District Bonds: Expenditures not allowable	2
	State School Facilities Funds: Expenditures not allowable	3
Instructional Materials	Adopted/nonadopted instructional materials requirements not followed	5
	Board resolution did not address sufficiency of textbooks/instructional materials	7
	Expenditures not allowable	14
	Notice of public hearing deficiency	13
	Other finding	5
	Public hearing on instructional materials not held or held after the required time period	18
More than 30% of allowance and interest expended on nonadopted materials	1	

Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
After School Education and Safety Program	Administrative costs exceeded 15% of state funding	3
	Indirect costs overstated	14
	LEA did not establish policies regarding reasonable early daily release of pupils	46
	LEA did not establish policies regarding reasonable late daily arrival of pupils	14
	Noncompliance with matching requirements	14
	Reported number of students served not supported by written records or does not reconcile to supporting documents	79
	Other finding	6
Classroom Teacher Salaries	District did not meet the current expense of education percentage required for payment of classroom teacher salaries	12
Early Retirement Incentive Program	Certification form not in file/incomplete/inaccurate	1
Mathematics and Reading Professional Development	Number of teachers claimed exceeded number of teachers participating in program	2
State Categorical Programs	Expenditures overstated	1
	Lack of documentation/records	1
Other State Programs	Expenditures overstated	2
	Financial report inaccurate/not complete	2
	Other finding	<u>2</u>
TOTAL STATE FINDINGS		<u>850</u>
FEDERAL		
Child Nutrition Cluster-National School Lunch	Activities allowed or unallowed	5
	Eligibility	6
	Allowable costs/cost principles	2
	Lack of documentation/records	1
	Other finding	1
	Reported revenue erroneous	1
Federal Programs	Multi-funded positions not supported by time distribution records	4
	Noncompliance with requirements for activities allowed or unallowed	3
	Noncompliance with requirements for allowable costs/cost principles	7
	Other finding	2
	Noncompliance with requirements for cash management	1
	Noncompliance with requirements for procurement and suspension and debarments	3
Head Start	Allowable costs/cost principles	1
	Davis-Bacon Act	1
	Matching, level of effort, earmarking	1
	Procurement and suspension and debarment	1
School Breakfast Program	Other finding	1

Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
FEDERAL (continued)		
Other Federal Program	Allowable costs/cost principles	3
	Lack of documentation/records	1
	Other finding	1
	Reporting	2
	Special tests and provisions	1
Special Education	Allowable costs/cost principles	11
	Special tests and provisions	1
	Other finding	2
Title I—Grants to LEAs	Activities allowed or unallowed	3
	Allowable costs/cost principles	13
	Eligibility	1
	Other finding	4
	Period of availability of federal funds	2
	Special tests and provisions	3
	Procurement and suspension and debarment	3
Title II, Improving Teacher Quality State Grants	Allowable costs/cost principles	3
Vocational Education	Allowable costs/cost principles	<u>1</u>
TOTAL FEDERAL FINDINGS		<u>96</u>
TOTAL STATE AND FEDERAL FINDINGS		<u>946</u>

Appendix D— Summary of Audit Report Deficiencies

Description	Number of Findings	
	2006-07	2007-08
<u>Management's Discussion and Analysis</u>		
The Management's Discussion and Analysis was not included in the audit report.	5	1
<u>Independent Auditor's Report</u>		
The auditor's report did not identify the supplementary information, including Schedule of Expenditures of Federal Awards.	5	9
The auditor's report did not include an opinion on supplementary information.	43	36
The auditor's report did not reference auditing standards generally accepted in the USA and <i>Government Auditing Standards</i> .	28	5
The introductory paragraph of auditor's report did not clearly identify financial statements covered by auditor's opinion.	1	1
Reference to a separate report on compliance and on internal control over financial reporting was deficient.	108	28
Reference to a separate report on compliance and on internal control over financial reporting was not included.	14	4
The report does not reference the required supplementary information (RSI).	1	3
The report does not state that the auditor applied limited procedures to the RSI.	1	4
The auditor's opinion did not state that the financial statements conform with accounting principles generally accepted in the USA.	0	1
Qualified opinion due to scope limitation: the explanatory paragraph and/or possible effects on financial statements were not disclosed.	0	2
Subtotal	201	93
<u>Basic Financial Statements</u>		
Governmental entity: the Balance Sheet—Governmental Funds was not properly presented.	3	4
Governmental entity: the Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities was not properly presented.	2	4
Governmental entity: the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets was not properly presented.	3	5
Governmental entity: the Statement of Activities was not properly presented.	2	2
Governmental entity: Statement of Cash Flows – the Proprietary Funds was not properly presented.	0	1
Governmental entity: the Statement of Changes in Fiduciary Net Assets—Fiduciary Funds was not properly presented.	0	1
Governmental entity: the Statement of Fiduciary Net Assets—Fiduciary Funds was not properly presented.	1	1

Appendix D (continued)

Description	Number of Findings	
	2006-07	2007-08
<u>Basic Financial Statements (continued)</u>		
Governmental entity: the Statement of Net Assets was not properly presented.	3	0
Governmental entity: the Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds was not properly presented.	8	4
Non-profit entity: the Statement of Activities was not properly presented.	3	12
Non-profit entity: the Statement of Financial Position was not properly presented.	1	1
Subtotal	<u>26</u>	<u>35</u>
<u>Notes to the Financial Statements</u>		
All component units and/or joint ventures (JPAs) related to the entity were not identified.	1	2
Material prior period restatements or adjustments were not adequately disclosed.	3	0
The notes did not adequately describe criteria used in determining whether other entities should be considered component units of the reporting entity.	2	9
The notes did not include adequate disclosure of capital assets and depreciation.	13	1
The notes did not include adequate disclosure with respect to long-term debt.	28	22
The notes did not include all material items necessary for a fair presentation of the financial statements.	8	0
Other post-employment benefits were not adequately disclosed	0	1
The pension obligations were not adequately disclosed.	58	6
The reserves were not appropriate, and/or their nature and purpose were not clear.	19	21
Subtotal	<u>132</u>	<u>62</u>
<u>Required Supplementary Information</u>		
The Schedule of Budgetary Comparison Data for General Fund and/or Major Special Revenue Funds was not included.	1	7
<u>Supplementary Information Section</u>		
A note stating that the LEA received funding for increasing instructional time was not included.	3	5
Available reserves are below minimum required and management's plans were not addressed, and/or going concern note was not included.	1	4
The Excess Sick Leave note was not included.	63	5
The Local Education Agency Organization Structure description was not included or was deficient.	238	52
The Reconciliation of Annual Financial and Budget Report with Audited Financial Statements was not included.	3	4
The Schedule of Average Daily Attendance for charter school did not include classroom-based ADA.	0	148

Appendix D (continued)

Description	Number of Findings	
	2006-07	2007-08
<u>Supplementary Information Section (continued)</u>		
The Schedule of Average Daily Attendance was deficient.	0	24
The Schedule of Average Daily Attendance was not included.	6	1
The Schedule of Charter Schools was not included or was deficient.	10	6
The Schedule of Expenditures of Federal Awards was deficient.	46	45
The Schedule of Expenditures of Federal Awards was not included.	3	1
The Schedule of Financial Trends and Analysis was not included or the schedule was deficient.	0	10
The Schedule of Instructional Time did not contain all of the required information.	6	28
The Schedule of Instructional Time did not state whether the district complied with the instructional minutes and days provisions.	7	4
The Schedule of Instructional Time indicates noncompliance, but no finding is included in report.	0	4
The Schedule of Instructional Time was not included.	1	5
The STRS early retirement note was not included, or disclosure was deficient.	9	3
Subtotal	396	349
<u>Government Auditing Standards (GAS) Report</u>		
The report did not include a statement regarding the auditee's response to findings.	0	75
The report did not state that the audit was conducted in accordance with auditing standards generally accepted in the USA and <i>Government Auditing Standards</i> .	2	2
The Report on Compliance and Other Matters did not include a statement regarding test results.	6	5
The Report on Internal Control and Compliance (GAS) did not reference the Independent Auditor's Report.	1	2
The Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (GAS) was not included.	1	2
The Report on Internal Control Over Financial Reporting was deficient.	85	20
Subtotal	95	106
<u>Management letter</u>		
Management letter was not included in audit report.	14	25
<u>Single Audit Report</u>		
The report did not include a statement regarding the auditee's response to findings.	0	5
The Report on Compliance With Requirements Applicable to Each Major Federal Program was deficient.	1	2

Appendix D (continued)

Description	Number of Findings	
	2006-07	2007-08
<u>Single Audit Report (continued)</u>		
The Report on Internal Control Over Compliance was deficient.	42	12
The Report on Major Program Compliance and on Internal Control Over Compliance (OMB Circular A-133) was not included.	5	2
The Report on Major Program Compliance and on Internal Control Over Compliance did not include a statement regarding legal restrictions on report distribution.	1	1
Subtotal	49	22
<u>State Compliance Report</u>		
The Auditor's Report on State Compliance did not include a statement regarding legal restrictions on report distribution.	5	3
The Auditor's Report on State Compliance was deficient.	86	47
The Auditor's Report on State Compliance cited the incorrect reference for the K-12 audit guide.	47	3
Subtotal	138	53
<u>Findings and Recommendation Section</u>		
The audit finding was not coded with the correct five-digit number.	19	6
Auditee's corrective action plan to eliminate noncompliance was not included.	3	8
Federal Program Finding(s): noncompliance was reported; however, the finding(s) did not include sufficient information.	3	5
Federal Program Finding(s): questioned costs and/or how they were calculated not included.	4	5
The major federal programs were not identified.	0	3
The Schedule of Findings and Questioned Costs was not included.	3	9
The Schedule of Prior Audit Findings was not included.	3	13
State Program Finding(s): financial impact not quantified in terms of dollars or ADA.	44	35
State Program Finding(s): noncompliance was reported; however, the finding(s) did not include sufficient information.	33	47
Sufficient information for judging the prevalence and consequences of noncompliance was not included.	2	2
The Summary of Auditor's Results was deficient.	0	56
The Summary of Auditor's Results was not included.	0	1
Subtotal	114	190
<u>Other</u>		
Auditor's reports did not include a manual or printed signature of the auditor's firm and date of the report.	2	0
Total number of findings	1,173	943

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