



CALIFORNIA
DEPARTMENT OF
EDUCATION

AUDITS & INVESTIGATIONS DIVISION

CDE AUDIT GUIDE

June 2010

**CALIFORNIA DEPARTMENT OF EDUCATION
AUDITS & INVESTIGATIONS DIVISION**

CDE AUDIT GUIDE

TABLE OF CONTENTS

	<u>Click Chapter Number</u>
Glossary of Terms and Acronyms	
Introduction	100
General Reporting and Administration	200
Reporting Child Care and Development Programs	300
Reporting Nutrition Programs	400
Reporting Adult Education Programs	500
Reporting No Child Left Behind Programs	600
Auditing Compliance with Program Requirements	700
Appendices:	
Illustrative Contractor Audit (Addresses Single Audit Reporting Requirements)	A
Examples of Schedules for Program-Specific Nutrition Audits:	
Child and Adult Care Food Program (CACFP) Centers	B
CACFP Day Care Homes	C
CACFP Independent Centers	D
School Nutrition Program	E

GLOSSARY

Terms and Acronyms

A&I	Audits and Investigations Division
AE	Adult Education
AICPA	American Institute of Certified Public Accountants
AUD	Audited Attendance and Fiscal Report
CACFP	Child and Adult Care Food Program
CAFR	Comprehensive Annual Financial Report
CBO	Community Based Organization
CCFRF	Child Care Facilities Revolving Fund
<i>CCR</i>	<i>California Code of Regulations</i>
CD	Child Development
CDD	Child Development Division
CDE	California Department of Education
CDFS	Child Development Fiscal Services
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CPA	Certified Public Accountant
<i>CSAM</i>	<i>California School Accounting Manual</i>
<i>EC</i>	<i>California Education Code</i>
EDGAR	Education Department General Administration Regulations
ESEA	Elementary and Secondary Education Act of 1965
FASD	Fiscal Administrative Services Division
<i>FT&C</i>	<i>Funding Terms and Conditions for Child Development Programs</i>
GAAP	Generally Accepted Accounting Principles
<i>GAS</i>	<i>Government Auditing Standards</i>
Greenbook	<i>Child Development Attendance and Fiscal Reporting and Reimbursement Procedures</i>
HHS	United States Department of Health and Human Services
MOE	Maintenance of Effort
NCLB	No Child Left Behind
NSD	Nutrition Services Division
OMB	Office of Management and Budget
SCO	State Controller's Office
USDA	United States Department of Agriculture

CHAPTER 100

INTRODUCTION

Chapter 100 – Introduction

TABLE OF CONTENTS

	<u>Section</u>
Purpose of Audit Guide.....	110
Authority for Audit Guide.....	120
General Audit Objectives.....	130
Auditor Qualifications.....	140
Auditing Standards.....	150
Selecting an Auditor.....	160
Audit Guide Changes.....	170
Technical Assistance.....	180

PURPOSE OF AUDIT GUIDE

110

The California Department of Education (CDE), Audits and Investigations Division (A&I), developed the *CDE Audit Guide* as a resource for audit requirements and guidance applicable to certain state and federal programs operated by private and public organizations under agreements with the CDE. Effective with audits of fiscal year 2009-10, the *CDE Audit Guide* supersedes the CDE's *Guide for Auditing Child Development, Nutrition, and Adult Basic Education Programs*, dated August 2002, in its entirety. The *CDE Audit Guide* should be used by independent auditors in conducting audits of state and federal programs, including, but not limited to:

- Child Care and Development
- Nutrition
- Adult Education
- No Child Left Behind – William F. Goodling Even Start Family Literacy, and 21st Century Community Learning Centers

The *CDE Audit Guide* also contains background information and audit procedures that should be considered when auditing CDE programs. The *CDE Audit Guide* is designed to supplement audit procedures and standards necessary to perform an examination in accordance with (1) Auditing Standards Generally Accepted in the United States of America, (2) *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States, and (3) applicable Office of Management and Budget Circulars. The *CDE Audit Guide* does not supplant the auditor's professional judgment; it leaves to the auditor's discretion which procedures to utilize in conducting an individual audit.

AUTHORITY FOR AUDIT GUIDE

120

The CDE requires an independent audit of public and private agencies under contract with CDE for the provision of educational services, including (but not limited to) child nutrition and child development, as provided by the following laws and regulations:

- A. The financial and compliance requirements to be reviewed during the audit shall conform, to the maximum extent possible, with those developed by the California State Controller's Office (SCO), in consultation with the California Department of Finance and CDE for use in auditing local educational agencies (LEA). The LEA audit guide, entitled *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (SCO Audit Guide), is to be submitted to the Education Audits Appeal Panel for review and adoption each fiscal year. See California *Education Code (EC)*, sections 33420, 41020.5, 14504, and 14502.1.
- B. The Child Care and Development Services Act requires an independent financial and compliance audit of organizations that contract with CDE under direct service contracts. Such audits shall be audits of the contractor rather than audits of individual contracts or programs. The financial and compliance requirements to be

AUTHORITY FOR AUDIT GUIDE

120

reviewed during the audit shall be those developed and published by the CDE in consultation with the Department of Finance. See *EC*, Section 8448.

EC 8448 and Title 5, California Code of Regulations (CCR), sections 18071, 18072, and 18073, require contractors to submit an acceptable annual financial and compliance audit to A&I. Consistent with the language and intention of the laws and regulations cited herein, the A&I has determined that an *acceptable audit* must meet the audit requirements set forth in the *CDE Audit Guide*, as it applies to specific CDE programs.

- C. Both the CDE and SCO audit guides incorporate the authority of the Office of Management and Budget (OMB) Circulars with regard to federal programs, including the *Single Audit* requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations (Single Audit)*.
- D. *EC* sections 84040 and 84040.5 require the governing board of each community college district to provide for an annual audit of all funds, books, and accounts of the district in accordance with the regulations of the board of governors, as approved by the Department of Finance.
- E. The U.S. Department of Agriculture (USDA) sets forth requirements for audits and financial statements involving nutrition programs. Reference *Title 7, Code of Federal Regulations (CFR)*, Part 3052, *Audits of States, Local Governments, and Non-Profit Organizations*.

GENERAL AUDIT OBJECTIVES

130

The general objectives for audits of CDE programs are to determine whether:

- A. The organization's financial statements are presented in conformity with generally accepted accounting principles in the United States of America (GAAP).
- B. The agency establishes and maintains effective internal controls to discharge management responsibilities and adequately safeguard state and federal interests.
- C. State and federal funds are being expended in accordance with applicable agreements and provisions of law or regulations that could materially affect the financial statements or programs tested. See Section 708, which distinguishes between the level of materiality for financial statements and program compliance.
- D. The direct and indirect costs incurred and claimed for reimbursement under the contracts are reasonable, allowable, and allocable to the programs according to the benefits received.

GENERAL AUDIT OBJECTIVES **130**

- E. The supplemental information required by the audit guide is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

AUDITOR QUALIFICATIONS **140**

Independent annual audits of CDE Programs administered by private not-for-profit organizations, private for-profit organizations, four-year universities, colleges, cities, and counties shall be performed by one of the following (also applies to *Single Audits*, except for item C):

- A. Certified Public Accountant (CPA) licensed by the California Board of Accountancy.
- B. Public accountant (PA) licensed on or before December 31, 1970 by the California Board of Accountancy.
- C. Internal audit unit of contractor that is not subject to the direction or authority of the manager responsible for the programs subject to the *CDE Audit Guide*.
- D. A&I, State Auditor, State Controller, and other comparable audit group that is independent of the auditee.

AUDITING STANDARDS **150**

Each audit shall be conducted in accordance with (1) auditing standards generally accepted in the United States of America, which are set forth by the American Institute of Certified Public Accountants; (2) the standards applicable to financial audits, contained in GAS, as issued by the Comptroller General of the United States; and (3) the *Single Audit* requirements set forth in the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as applicable.

SELECTING AN AUDITOR **160**

A. General

The California Board of Accountancy (Board) maintains a Web site at <http://www.dca.ca.gov/cba/consumers/slectcpa.shtml> that lists considerations for selecting a CPA or PA. The Board also allows you to check the status of a practitioner's license by using its License Lookup Feature at <http://www.dca.ca.gov/cba/lookup.shtml>, or you can contact the Board by telephone at (916) 263-3680.

SELECTING AN AUDITOR**160****B. Peer Review**

CPAs are required to obtain periodic reviews performed by a peer. The American Institute of Certified Public Accountants (AICPA) Peer Review Program has the goal of obtaining quality in the performance of accounting and auditing engagements by its members, seeking to achieve its goal through education and remedial, corrective actions. For additional peer review information, see the AICPA Web site at <http://www.aicpa.org/members/div/practmon/index.htm>.

In addition, Paragraph 3.50.b of GAS requires audit organizations that perform audits in accordance with generally accepted government auditing standards to have an external peer review at least once every 3 years.

C. Request for Proposal

The AICPA Web site offers tools to assist in the process of hiring an auditor, including a sample request letter for CPA services. The sample contains language that may be used by an organization when requesting a proposal letter from a qualified CPA when seeking a new service provider. See a sample Request for Proposal (RFP) on the AICPA Web page at:

http://www.aicpa.org/audcommctr/toolkitsnpo/SampleRFP_for_CPA_Services.htm

When the organization is requesting audited financial statements, ensure that the RFP requires the auditor to provide:

1. A copy of the firm's most recent governmental peer review report, the related letter of comments, and the firm's response to the letter of comments.
2. A proposal letter that includes:
 - a. Assurance that the audit will adhere to the audit requirements of (1) the CDE Audit Guide, and (2) if applicable, OMB Circular A-133.
 - b. Each of the financial and compliance areas to be audited.
 - c. The date by which the final audit report will be provided (see audit report submission and due date requirements in Chapter 200).
 - d. A statement to the effect that the auditor shall make available, on request by CDE, a copy of all audit documentation pertaining to the audit.

SELECTING AN AUDITOR

160

- e. Assurance that the CPA will provide two copies of the audit report and management letter directly to CDE at:

California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814
Attention: Audit Reports Review Section

D. Contract for Audit Services

The contract for audit services should be obtained by using applicable procurement standards. The auditor must provide the organization with a written engagement letter that spells out all services to be performed, as described in the RFP and proposal letter.

AUDIT GUIDE CHANGES

170

Future updates to this audit guide may be made periodically, depending on changes in applicable laws, regulations, and other guidelines. The Audits and Investigations Division (A&I) provides access to the *CDE Audit Guide* through its Web site at <http://www.cde.ca.gov/fg/au/pm/>. In between major revisions of the *CDE Audit Guide*, updates affecting the audit guide may be posted to the A&I Web site.

The *CDE Audit Guide* incorporated examples based on the latest reporting standards and requirements issued by the American Institute of Certified Public Accountants, Office of Management and Budget, and Comptroller General of the United States. However, over time, such standards and requirements likely will be revised. When revisions occur, the auditor should use the most current authoritative language.

Suggestions for improving the *CDE Audit Guide* should be addressed to the Audits and Investigations Division by calling (916) 322-2288, or writing:

California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814
Attention: Audit Guide Revisions

TECHNICAL ASSISTANCE

180

Organizations or independent auditors with questions about the *CDE Audit Guide*, or the program requirements affecting audits, may contact A&I by telephone at (916) 322-2288, or by mail or fax at:

California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814
Attention: Audit Reports Review Section
Fax: (916) 323-4460

CHAPTER 200

GENERAL REPORTING

AND

ADMINISTRATION

Chapter 200 – General Reporting and Administration

TABLE OF CONTENTS

	<u>Section</u>
Responsibility for Contents of Audit Report.....	202
Review of Audit Reports by Audits and Investigations Division.....	204
Audit Reporting Requirements.....	206
Child Development Contractor Audit.....	207
Other than A Contractor Audit.....	208
Program Audit – Local Governments Only.....	209
Audit Report Submission and Due Dates.....	210
One-Time-Only Extension Per Year for Child Development Audits.....	212
Delinquent Audit Reports.....	214
Reconciliation of Fiscal Years Not Ending on June 30.....	216
Payment History Requests.....	230
Audit Documentation and Record Retention.....	242
Annual Audit Status Certification Form.....	252
Reporting Fraud.....	260
<u>Exhibits at End of Chapter:</u>	
Audit Report Contents.....	Exhibit A
Audit Due Dates.....	Exhibit B
Extension Request Form.....	Exhibit C
Reconciliation of Fiscal Year Not Ending on June 30.....	Exhibit D

RESPONSIBILITY FOR CONTENTS OF AUDIT REPORT

202

Management of the organization being audited is responsible for the validity and accuracy of the audit report submitted to the CDE. The audit report is comprised of the financial statements of the organization and the supplementary information required by the *CDE Audit Guide* (see *Audit Report Contents* in Exhibit A at the end of this chapter).

The independent auditor who audits the financial statements and supplementary information is responsible for performing an independent verification and testing to validate and express an opinion on the fair presentation of the audited information. The audit must be performed in accordance with the auditing standards described in Section 150. Also, the Independent Auditor's Report is required to indicate whether the supplementary information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

REVIEW OF AUDIT REPORTS BY AUDITS AND INVESTIGATIONS DIVISION 204

- A. The CDE, A&I, is responsible for reviewing audit reports to determine whether the audits conform with the audit reporting requirements of the *CDE Audit Guide*. The A&I will notify CDE's program staff after A&I has reviewed an audit report and made its determination.
- B. With regard to A&I's review of Child Care and Development audits, *Title 5, CCR*, Section 18072, provides that A&I shall determine whether the audit is acceptable and is responsible for the final accounting of any amount payable to or receivable from the contractor pursuant to the contract. The A&I may reject an audit report that it considers to be unacceptable if the audit report fails to meet audit requirements set forth in the *CDE Audit Guide*.
 - 1. For rejected reports, the A&I will notify the contractor's executive director and CPA, providing a brief written description of the actions required to clear each deficiency (usually within 30 days) before the A&I will accept the audit report.
 - a. Failure to meet the 30 day due date will result in the CDE's withholding contract payments.
 - b. If a contractor fails to meet these requirements, the A&I staff will refer the contractor to the Child Development Case Conference Committee, which may result in conditional contract status, nonrenewal of contracts, and/or contractor termination.
 - 2. The A&I may request the CPA to correct minor reporting problems without re-issuing the audit report.

AUDIT REPORTING REQUIREMENTS

206

Audit reporting requirements can vary by the type of the CDE program, the type of entity audited, and the amount of any federal funds expended. The programs subject to audit include Child Care and Development (CD), Nutrition, Adult Education (AE), and No Child Left Behind (NCLB). The types of entities include not-for-profit, for-profit, and local government. Local educational agencies, i.e., school districts, are not subject to the audit procedures in the *CDE Audit Guide*; school districts are subject to the requirements under the *Single Audit* requirements of the OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

A. Audits of Organizations with CD Programs

When an organization receives CD funding to operate one or more CD programs under contract with the CDE, the organization must follow the audit reporting guidelines presented in Section 207. Those guidelines also apply when an organization receives CD funding, plus other funding to operate Nutrition, AE, and/or NCLB programs. Note that the audit guide applies to NCLB programs only when they are included in an audit of CD programs.

B. Audits of Organizations without CD Programs

When an organization operates Nutrition and/or AE programs, but not CD programs, the organization must follow the audit reporting guidelines presented in Section 208.

C. *Single Audit* Requirements

In addition to complying with sections 206.A or 206.B, an audit of a not-for-profit organization or local government that expends federal funding of \$500,000 or more during a fiscal year, is subject to the *Single Audit* requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

The OMB Circular A-133 requires certain schedules and other information that must be included in either (1) an organization's overall audit report, or (2) a separate *Single Audit* report that contains the following information:

1. Schedule of Federal Award Expenditures
2. Report On Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the OMB Circular A-133
3. Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with GAS.

AUDIT REPORTING REQUIREMENTS**206**

4. Schedule of Findings and Questioned Costs

The *Single Audit*'s required schedules and other information (Items C.1 through C.4, above) differ slightly from the *CDE Audit Guide* requirements, as follows:

- Item C.1 also is required to report state award expenditures; so the *CDE Audit Guide* requires the report to be titled, "Schedule of Federal and State Awards."
- Item C.2 is required only to meet a *Single Audit* requirement.
- Items C.3 and C.4 are required to meet *Single Audit* requirements and *CDE Audit Guide* requirements. Thus, both items address federal and state findings on internal control and compliance.
- Item C.4, Schedule of Findings and Questioned Costs, Sections I through IV, must include (Example in Appendix A):
 - Section I, Summary of Auditor's Results, addresses the Financial statements and federal awards
 - Section II, Financial Statement Findings, addresses financial statements without regard to funding source
 - Section III, Findings and Questioned Costs for Federal and State Awards – Current Year, must include current fiscal year findings on internal controls and compliance for state, as well as federal programs
 - Section IV, Status of Corrective Action on Prior Year Findings, covers findings without regard to funding source

CHILD DEVELOPMENT CONTRACTOR AUDIT**207**

An organization that enters into a contract with the CDE to operate CD programs is referred to as a contractor. The contractor is required to submit an annual independent financial and compliance audit of the contractor's entire organization, referred to as a Contractor Audit, rather than an audit of individual contracts or programs. The audit shall meet the requirements of the *CDE Audit Guide* and include the applicable reports and schedules listed in Exhibit A of this chapter. A Contractor Audit is required when a contractor receives \$25,000 or more in state funding from all state agencies combined. When a contractor receives less than \$25,000 per year in state funding, the audit required shall be conducted biennially unless there is evidence of fraud or other violation of state law in connection with any direct service contract. See *EC*, Section 8448(g).

CHILD DEVELOPMENT CONTRACTOR AUDIT

207

Also, a contractor that has received CD funds under a contract with the CDE must submit an audit to the CDE in accordance with the requirements stated in the *CDE Audit Guide*, even if the contractor (1) goes out of business before completing the contract term, or (2) does not otherwise provide child care services in accordance with contract provisions. Failure to submit the required audit could result in the CDE billing the contractor for all funds that the contractor received for the affected contract(s).

Audit reporting requirements are presented below for Contractor Audits of not-for-profit organizations, for-profit organizations, and local governments. Contractors shall report expenditures on an accrual basis (*Title 5, CCR, Section 18063*).

A. Not-for-Profit Organization (includes Institutions of Higher Education and Hospitals)

1. A not-for-profit organization that expends less than \$500,000 in federal awards during its fiscal year must provide the CDE with a Contractor Audit that includes:
 - a. Independent Auditor's Report.
 - b. Basic financial statements of the organization.
 - c. Supplementary information – see Exhibit A of this chapter for required supplementary information; and Chapter 300, Reporting Child Care and Development Programs.
2. A not-for-profit organization that expends federal awards of \$500,000 or more during its fiscal year must provide the CDE with a Contractor Audit that includes:
 - a. Independent Auditor's Report.
 - b. Basic financial statements of the organization.
 - c. Supplementary information – see Section 206.C, *Single Audit* Requirements; Exhibit A of this chapter for other required supplementary information; and Chapter 300, Reporting CD Programs.

A sample Contractor Audit report that meets both the CDE and *Single Audit* requirements is presented in Appendix A.

B. For-Profit Organization

A for-profit organization must provide the CDE with a Contractor Audit that includes:

1. Independent auditor's report.

CHILD DEVELOPMENT CONTRACTOR AUDIT**207**

2. Basic financial statements of the organization.
3. Supplementary information – see Exhibit A of this chapter for required supplementary information; and Chapter 300, Reporting Child Care and Development Programs.

Note that *Single Audit* requirements do not apply to *for-profit* organizations. Section 210(e) of OMB Circular A-133 assigns responsibility to the pass-through entity (CDE) for establishing such audit requirements. Accordingly, the CD audit requirements applicable to for-profit organizations are the same as those applicable to not-for-profit organizations that expend less than \$500,000 in a year in federal awards (Section 207.A.1).

C. Local Government

1. A local government that expends less than \$500,000 in federal awards during its fiscal year must provide CDE with an audit package that contains:
 - a. A Comprehensive Annual Financial Report (CAFR), prepared in accordance with the standards set forth by the Government Accounting Standards Board (a CAFR includes an audit opinion, government-wide and fund financial statements, and additional information). Some local governments will opt not to provide a full CAFR; instead, providing at least an independent auditor's report and basic financial statements. For simplicity, however, this audit guide will use the term CAFR to cover all local government audits.
 - b. Supplementary information – see Exhibit A of this chapter for required supplementary information; and Chapter 300, Reporting Child Care and Development Programs. A local government may include supplementary information in a Program Audit (Section 209) when a contractor audit would not be submitted timely.
2. A local government that expends federal awards of \$500,000 or more during its fiscal year must provide CDE with an audit that contains:
 - a. A CAFR, as described in Section 207.C.1.a.
 - b. Supplementary information – see Section 206.C, *Single Audit* Requirements; Exhibit A of this chapter for other required supplementary information; and Chapter 300, Reporting CD Programs. A local government may include supplementary information in a Program Audit (Section 209) when a contractor audit would not be submitted timely.

OTHER THAN A CONTRACTOR AUDIT**208**

When an organization operates Nutrition and/or AE programs, but not CD programs, it is required to obtain and provide the CDE an audit in accordance with the audit reporting guidelines presented below.

A. Nutrition Programs

An audit of nutrition programs is required only when an organization receives nutrition program funding and the organization expends \$500,000 or more in federal awards during its fiscal year. This requirement applies to all for-profit and not-for-profit organizations and local governments. The nutrition audit must include:

1. A for-profit or not-for-profit organization that expends \$500,000 or more in federal awards during its fiscal year must provide an audit that includes:
 - a. Independent auditor's report.
 - b. Basic financial statements of the organization.
 - c. Supplementary information – see Section 206.C, *Single Audit* Requirements; Exhibit A of this chapter for other required supplementary information; and Chapter 400, Reporting Nutrition Programs.
2. A local government that expends \$500,000 or more in federal awards during its fiscal year must provide an audit that includes:
 - a. A CAFR, as described in Section 207.C.1.a.
 - b. Supplementary information – see Section 206.C, *Single Audit* Requirements; Exhibit A of this chapter for other required supplementary information; and Chapter 400, Reporting Nutrition Programs.
3. Program Specific Audit. When a contractor expends federal awards of \$500,000 or more under only one federal program, the contractor may submit a *program-specific* audit [see OMB Circular A-133, Section 235(b)], which requires information related to federal awards expended, internal controls, compliance, and audit findings. Also, the contractor shall provide the applicable supplementary schedules listed in Exhibit A of this chapter, and financial statements of the entire organization, audited in accordance with the standards of the AICPA and GAS.

OTHER THAN A CONTRACTOR AUDIT**208**

The audit requirements for all agencies (including for-profit entities) participating in the Child and Adult Care Food Program (CACFP) also are set out in Nutrition Services Division Management Bulletin NSD-CACFP-03-2007.

B. Adult Education Programs

An audit of AE programs is required only when an organization receives AE program funding and the organization expends federal awards of \$500,000 or more during its fiscal year. This requirement applies to all not-for-profit organizations and local governments. The AE audit must include:

1. A not-for-profit organization that expends federal awards of \$500,000 or more during its fiscal year must provide the CDE with an audit that includes:
 - a. Independent auditor's report.
 - b. Basic financial statements of the organization.
 - c. Supplementary information – see Section 206.C; *Single Audit* Requirements; Exhibit A of this chapter for other required supplementary information; and Chapter 500, Reporting Adult Education Programs.
2. A local government that expends federal awards of \$500,000 or more during its fiscal year must provide the CDE with an audit that includes:
 - a. A CAFR, as described in Section 207.C.1.a.
 - b. Supplementary information – see Section 206.C; *Single Audit* Requirements; Exhibit A of this chapter for other required supplementary information; and Chapter 500, Reporting Adult Education Programs.

PROGRAM AUDIT – LOCAL GOVERNMENTS ONLY**209**

A CD program audit is a partial audit submitted by a local government when a local government is unable to submit to the CDE the entire local government audit (Section 207.C) by the contractor audit due date (Section 210.A.3). A program audit includes supplementary information about the CD program, but not basic financial statements. The program audit should include an independent auditor's report that addresses fair presentation of the supplementary information. Also, a local government must submit a CAFR to the CDE, as described in Section 207.C.1.a. In lieu of submitting a paper copy of the CAFR, a local government may provide its Web site address for the CAFR. In addition, a local government must submit a *Single Audit*, if applicable (Section 210.B).

AUDIT REPORT SUBMISSION AND DUE DATES

210

Contractor audits of CD programs and *Single Audits* may have different requirements for submission and different due dates, depending on the programs administered, the contractor's status, and the type of entity. If a normal due date falls on a weekend or state holiday, the required due date will be extended to the next business day.

Also, this section addresses the submission requirements for Internal Control Communication and/or Management Letters, and subcontractor audits (sections 210.C and 210.D, respectfully).

A. Contractor Audit

1. Contractor Audit Submission

- a. Organizations with CD programs must submit a contractor audit covering all CDE and non-CDE programs.
- b. Two copies each of the contractor audit report, management letter (if applicable), and any subcontractor audit report(s) are to be mailed to the CDE, A&I at:

California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814
Attention: Audit Reports Review Section

- c. The contractor (auditee) must authorize the auditor to mail two copies of the audit report and any management letter directly to the A&I. The auditor shall inform the A&I if the auditee refuses to allow the auditor to send the audit reports and management letter directly to the A&I.
- d. The A&I will not accept a pro forma or draft audit report submitted as a substitute for the contractor audit report.

2. Local Governments Only

If a local government prepares a program audit (see Section 209), it must submit the program audit to CDE, meeting deadlines set forth in Section 210.A.3.

Also, the local government must submit to the CDE its Comprehensive Annual Financial Report (CAFR) within the timeframes established for *Single Audits* in Section 210.B.

AUDIT REPORT SUBMISSION AND DUE DATES

3. Contractor Audit Deadlines (See *Audit Due Dates*, Exhibit B)

Contractor audit report due dates and related action due dates for contractors with fiscal years ending June 30 of the current state fiscal year:

November 14	All audit extension requests – see Section 212
November 15	Audits without an A&I approved extension
December 1	Delinquent audit report list is sent to the CDE Fiscal Administrative Services Division (FASD) – see Section 214
December 15	Audits with an A&I approved extension (one time only)

Contractor audit report due dates and related action due dates for contractors with fiscal years ending other than June 30 of the current state fiscal year:

The 14 th day of the fifth month after the contractor’s fiscal year-end	All audit extension requests – see Section 212
The 15 th day of the fifth month after the contractor’s fiscal year-end	All audits without an A&I approved extension
The 1 st day of the sixth month after the contractor’s fiscal year-end	Delinquent audit report list is sent to the FASD – see Section 214
The 15 th day of the sixth month after the contractor’s fiscal year-end	Audits with an A&I approved extension (one time only)

B. Single Audit

1. *Single Audit* Submission

- a. All not-for-profit organizations and local governments shall submit two copies each of the *Single Audit* report, management letter (if applicable), and any subcontractor audit report(s) to the CDE Audits and Investigations Division at:

California Department of Education
 Audits and Investigations Division
 1430 N Street, Suite 5319
 Sacramento, CA 95814
 Attention: Audit Reports Review Section

AUDIT REPORT SUBMISSION AND DUE DATES

210

- b. If a *Single Audit* includes one or more CD programs, the *Single Audit* report must be submitted by the due date of the contractor audit, unless the auditee is a local government entity.
- c. If the auditee is a local government entity and the *Single Audit* includes one or more CD programs, the *Single Audit* and the CAFR must be submitted within the timeframes specified for *Single Audits* in Section 210.B.2.
- d. The A&I will not accept pro forma or draft reports submitted as a substitute for the final *Single Audit* report.

2. *Single Audit* Deadlines (See *Audit Due Dates*, Exhibit B)

A completed *Single Audit* for a not-for-profit entity shall be submitted within the **earlier of 30 days after receipt of the audit by the contractor, or nine months after the end of the audit period**, according to OMB Circular A-133, Section .320(a).

Some programs or government agencies have more stringent requirements. For example, when a single audit of a not-for-profit entity includes a CD program, the *Single Audit* must be submitted by the due date of the contractor audit (Section 210.B.1.b).

3. Additional Requirements

a. Adult Education Programs

The completed *Single Audit* for not-for-profit contractors and subcontractors that receive Adult Education funding shall be submitted within the **earlier of 30 days after receipt of the audit report, or six months after the end of the agency's fiscal year** in accordance with the requirements of the state's final budget summary.

b. Community Colleges

Community colleges have a fiscal year-end of June 30. Because almost all Community Colleges have adult education programs, the audits for community colleges are due by **six months after fiscal year-end, or December 31**. Note that CD programs operated by community colleges are not subject to the audit procedures in Chapter 300 of the *CDE Audit Guide*.

AUDIT REPORT SUBMISSION AND DUE DATES

210

c. School Districts and Charter Schools

School Districts and Charter Schools shall submit an annual *Single Audit* by **December 15 of each year**, in accordance with *EC* sections 41020 and 47605.6, to:

1) The State Controller's Office at:

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

2) The California Department of Education at:

California Department of Education
School Fiscal Services Division
1430 N Street, Suite 3800
Sacramento, CA 95814

d. Institutions of Higher Education and Hospitals

Not-for-profit institutions should follow the submission requirements in Section 210.B.1. For-profit institutions should follow submission requirements in Section 210.B.3.f.

e. County and City Governments

County and city governments shall submit a copy of the annual *Single Audit* to the State Controller's Office at:

State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

f. For-Profit Organizations

Single Audit requirements do not apply to for-profit subrecipients. According to OMB Circular A-133, Section .210(e), the pass-through entity (the CDE) is responsible for establishing audit requirements for the for-profit organizations. Thus, the CDE requires for-profit organizations to use the same reporting requirements established for contractor audits under Section 210.A.

AUDIT REPORT SUBMISSION AND DUE DATES

210

4. Requirement for Submitting Reporting Package and Data Collection Form to the Federal Audit Clearinghouse

According to the OMB Circular A-133, Section .320(d), the auditee must file electronically (online) to the Federal Audit Clearinghouse a completed data collection form and audit reporting package within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

C. Internal Control Communication and/or Management Letter

Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires reporting of material weaknesses and significant deficiencies.

1. In an audit engagement where no significant deficiencies or material weaknesses are identified, an auditor should not issue a written communication so stating.
2. Where significant deficiencies or material weaknesses are identified, a SAS 115 communication must be provided to management and those charged with governance.
3. Where less serious internal control deficiencies exist, which are not significant deficiencies or material weaknesses, auditors may want to include the deficiencies in a separate communication, such as a management letter.
4. Where both (a) significant deficiencies or material weaknesses and (b) less serious internal control deficiencies are identified, auditors may either combine the reporting in one SAS 115 communication, or report them separately, as in items 2 and 3 above. If reported together, the auditor must clearly identify less serious control deficiencies as other matters related to internal control.

Any such letter(s) must be submitted with the contractor's annual audit report. If the letter(s) have not been issued at the time the audit report is submitted, then it (they) must be submitted directly to the CDE upon issuance.

D. Subcontracts for Operating Child Development Programs

A contractor may choose to enter into an agreement with another organization (subcontractor) where the subcontractor operates one or more of the contractor's CD programs. The subcontractor shall obtain an audit that meets the requirements

AUDIT REPORT SUBMISSION AND DUE DATES

210

of this audit guide and provide the contractor with two copies of the audit. Both the contractor's and the subcontractor's final audits are due to the CDE from the contractor by the date specified in Section 210.A.3, or 210.B.2. Note that affected subcontractors exclude those that operate CD programs only for school districts.

ONE-TIME-ONLY EXTENSION PER YEAR FOR CHILD DEVELOPMENT AUDITS

212

Except for CD program contractors on conditional status, *Title 5, CCR*, Section 18073 allows the A&I to grant a CD contractor a **one-time-only per year**, 30-calendar-day extension of the audit due date, provided the inability of the contractor to submit the audit by the due date was beyond the fault and control of the contractor.

For contractors with a fiscal year ending June 30, a request for extension shall be made in writing and either mailed (postmarked) or faxed by 4:00 p.m. on November 14 to:

California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814
Attention: Audit Reports Review Section
Fax: 916-323-4460

For contractors with a fiscal year ending on a date other than June 30, a request for extension shall be in writing and either mailed (postmarked) or faxed by 4:00 p.m. on the 14th day of the fifth month after the contractor's fiscal year-end.

If a normal due date for an extension request falls on a weekend or state holiday, the required due date will be extended to the next business day.

Requests for extensions postmarked or faxed after the due date and time will not be considered or granted. Please do not submit more than **one request** for an extension. Duplicate requests slow down the approval process for all extension requests. A sample *Extension Request Form* is provided in Exhibit C at the end of this chapter.

DELINQUENT AUDIT REPORTS

214

A. Contractor Audit

Title 5, CCR, Section 18073, indicates that contractor audits of CD programs shall be considered delinquent and all apportionments withheld if the audit is not received on or before the due date and an extension has not been granted.

DELINQUENT AUDIT REPORTS

214

B. *Single Audit*

Single Audits are due as provided in Section 210.B. An extension may be granted if a Single Audit includes one or more CD programs and the contractor is not a local government entity. No extensions will be granted for a local government entity.

C. Audit of School Nutrition Programs (School Breakfast Program, National School Lunch Program, and Special Milk Program)

If a sponsor does not submit to CDE a timely and acceptable School Nutrition audit, the sponsor's reimbursement claims may be suspended beginning with the first month of delinquency (usually July or January). If an audit is outstanding for 30 days or more after the due date, payments will be canceled. Thus, the participant will lose reimbursement for one or more months. If the audit is still outstanding for more than 90 days after the deadline, the participant may be terminated from all CDE nutrition programs and will lose all reimbursement beginning with the first month of cancellation. However, before any termination occurs, the participant will receive at least two written notices regarding delinquency.

A School Nutrition program participant that has been terminated from any child nutrition program for failure to meet the audit requirement shall submit an acceptable audit before being reinstated. The audit shall cover the program year that was not previously audited as required and may also include the following program year. Additional paperwork will be required for any participant that reinstates after termination.

RECONCILIATION OF FISCAL YEARS NOT ENDING ON JUNE 30

216

Entities that submit (1) financial statements with a fiscal year ending on a date other than June 30 of the current state fiscal year, and (2) supplementary information on state CD programs for the fiscal year ending June 30, must reconcile the revenue and expense data reported for the two periods. Specifically, the amounts reported in the *Statement of Activities* for the organization's fiscal year-end must be reconciled with the amounts reported in the *Combining Statement of Activities* for the fiscal year ending June 30. See the *Example of Reconciliation of Fiscal Year Not Ending on June 30* in Exhibit D at the end of this chapter.

If the contractor's fiscal year ends after June 30 (but no later than December 31), the reconciliation should be from the contractor's fiscal year-end back to June 30 of the current state fiscal year. If the contractor's fiscal year ends before June 30 (but not before January 1), the reconciliation should be from the contractor's fiscal year-end back to June 30 of the preceding state fiscal year. See *Audit Due Dates* in Exhibit B.

PAYMENT HISTORY REQUESTS

230

The CDE maintains records of payments made to contractors under CD and nutrition programs. A *Summary of Child Development Contract Activity* covering all CD contracts and/or a *Nutrition Claim History Report* for each nutrition agreement, as applicable, are sent to the CPA of record in September and October, respectively, for the fiscal year under audit. Also, the reports are available upon request. These reports are provided for general guidance, so the auditor is expected to review the contractor's records to verify payments received by the contractor.

AUDIT DOCUMENTATION AND RECORD RETENTION

242

The *California Business and Professions Code*, Section 5097, and the California Board of Accountancy Regulations, Section 68.3, requires audit documentation to be retained by the auditor for a minimum of seven years, measured from the date of issuance of the report, unless the auditor is notified in writing by CDE, A&I, of the need to extend the retention period. The A&I reserves the right to perform quality control reviews of audit documentation to determine whether audits have been performed in conformity with GAS. Audit documentation shall be made available upon request.

The *EC* Section 33421 indicates that every private agency that receives state funds, which may be audited pursuant to the *EC* Section 33420, shall, upon request, make all records pertaining to its state-funded programs available to the CDE during regular business hours. The records shall be retained for at least five years, except for child nutrition program records. Also, records for real property and equipment acquired with CDE funds (or combined CDE-federal funding) shall be retained for 5 years after final disposition.

Child nutrition program records shall be retained for three years, according to regulations adopted by the USDA (*Title 7, CFR*, sections 3019.5 and 3016.42). However, in cases where an audit remains unresolved, the records shall be retained until the date the audit is resolved. In addition, records for real property and equipment acquired with federal funds shall be retained for 3 years after final disposition.

ANNUAL AUDIT STATUS CERTIFICATION FORM

252

Organizations that participate in CDE's CD, Nutrition, AE, and NCLB programs must annually report to CDE, A&I, on an Annual Audit Status Certification (AASC) form, the total amount of federal and state funds expended during the past fiscal year. The AASC form does not replace the requirement to submit an annual audit report to the Federal Clearinghouse (Section 210.B.4) and to the A&I (Section 206).

The AASC form must be completed, signed, dated, and returned to A&I by the deadline noted at the top of the form. For AASC form instructions, see the A&I Web site at

<http://www.cde.ca.gov/fg/au/pm>. Also, the person completing the AASC form should be

ANNUAL AUDIT STATUS CERTIFICATION FORM

252

familiar with the organization's financial contracts and programs. If the information requested on the AASC form does not apply to your organization for reasons such as cancellation, termination, or voluntary discontinuation of the CDE's programs, please sign, date, and return the form with a notation stating the reason for non-applicability. Submit your organization's completed and signed AASC form to:

California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814

Failure to timely submit the AASC form to the A&I may jeopardize an organization's continued participation in programs administered by the CDE.

REPORTING FRAUD

260

When an auditor uncovers fraud or an illegal act that has occurred, or is likely to occur in a program funded by CDE, the auditor must report it to the CDE, A&I (for address, see Section 210.A, or call 916-322-2288). The following standards apply:

A. *Government Auditing Standards*

GAS, as issued by the Comptroller General of the United States, addresses fraud and illegal acts. Section 5.12 indicates that auditors should report all instances of fraud and illegal acts unless inconsequential. In addition, Section 5.17 indicates that when fraud has occurred or is likely to have occurred, auditors may consult with authorities or legal counsel as to whether publicly reporting such information would compromise investigative or legal proceedings. Furthermore, Section 5.18 indicates that, when an organization is informed of fraud and fails to take appropriate action, auditors should report the known or likely fraud directly to parties outside the audited entity, such as the funding agency.

B. *Statement on Auditing Standards No. 99*

SAS No. 99, *Consideration of Fraud in a Financial Statement Audit*, issued by the AICPA, provides guidance regarding fraud, including the auditor's communications about fraud to management, the audit committee, and others. The auditor has a duty to disclose to parties outside the entity, such as a funding agency, in accordance with requirements for the audits of entities receiving governmental financial assistance (refers to GAS).

Chapter 200 - General Reporting and Administration
Audit Report Contents

THE FOLLOWING REPORTS, STATEMENTS, SCHEDULES, AND OTHER INFORMATION, AS APPLICABLE, ARE REQUIRED TO MEET STATE AND SINGLE AUDIT REPORTING REQUIREMENTS	SAMPLE AT APPENDIX
INDEPENDENT AUDITOR'S REPORT(1)	A
BASIC FINANCIAL STATEMENTS:(1)	
Statement of Financial Position < Balance Sheet (2) >	
Statement of Activities and Changes in Net Assets < Income Statement (2) >	
Statement of Cash Flows	
Notes to Financial Statements	
SUPPLEMENTARY INFORMATION:	
Schedule of Federal and State Awards (Meets both Single Audit and State Audit Requirements)	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 (<i>Single Audit Only</i>)	
Schedule of Findings and Questioned Costs (all audits)	
Status of Corrective Action on Prior Year Findings (all audits)	
Any Internal Control Communication and/or Management Letter	
Child Development Programs (see Chapter 300):	
Combining Statement of Activities < Combining Income Statement (2) >	
Schedule of Expenditures by State Categories	
Reconciliation of CDE Reporting to GAAP Reporting	
Schedule of Reimbursable Equipment Expenditures	
Schedule of Reimbursable Expenditures for Renovations and Repairs	
Schedule of Reimbursable Administrative Costs	
Schedule of Reimbursable Start-Up Expenses, if applicable	
Audited Attendance and Fiscal Reports and Audited Fiscal Reports (AUD Forms)	
Audited Reserve Account Activity Report(s), if applicable	
Reconciliation of Fiscal Year Not Ending on June 30, if applicable	
Nutrition Programs (see Chapter 400):	
A. Child and Adult Care Food Program (3):	
1. Centers:	
Summary of Claim	B
Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement	
Schedule of Reported, Adjusted, and Allowed Enrollment	
Schedule of Reported, Adjusted, and Allowed Meals	
2. Day Care Homes:	
Summary of Claim	C
Schedule of Reported, Adjusted, and Allowed Meals, Sites and Earned Reimbursement	
Schedule of Reported, Adjusted, and Allowed Meals and Homes	
Determination of Allowable Administrative Reimbursement	
Schedule of Reported, Adjusted, and Allowed Administrative Income	
Determination of Reported, Adjusted, and Allowed Administrative Cost	
Determination of Budget Deficit (Adjustments)	
Determination of Allowed Provider Payments	
3. Independent Centers:	
Summary of Claim	D
Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement	
Schedule of Reported, Adjusted, and Allowed Meals	
Schedule of Reported, Adjusted, and Allowed Enrollment	
Reconciliation of Allowable Administrative Costs	
Schedule of Allowed Administrative Costs	
Schedule of Allowed Funds Retained	
B. School Nutrition Program (4):	
Summary of Claim	E
Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement	
Schedule of Reported, Adjusted, and Allowed Enrollment	
C. Summer Food Service Program (4):	
Summary of Claim	(5)
Schedule of Meals Served and Cost of Meal Service	
Statement of Budgeted and Actual Administrative Expenses	
Calculation of Maximum Allowable Administrative Costs	
Schedule of State Disallowance Notices	
Footnotes:	
(1) For audits of local governments, this information is included in the entity's Comprehensive Annual Financial Report (or similar report).	
(2) Use this title in audits of For-Profit entities (sole proprietor/partnership/corporation).	
(3) Exclude when there are no Child and Adult Care Food Program findings, over/underpayments, and/or audit cost reimbursement requests.	
(4) Exclude when there are no Program findings and/or over/underpayments.	
(5) Refer to Section 440 for additional information on Summer Food Service Program.	

Chapter 200 - General Reporting and Administration
Audit Due Dates

Child Care and Development Audit Due ¹							
For Contractors with FYE	Contractor Audit Due	Audit to Include Reconciliation to State FYE	Not-for-Profit Single Audit Due	Local Government CAFR and/or Single Audit ²		Nutrition Only Single Audit Due	Adult Education Only Single Audit Due
				Supplementary Information Due	Single Audit Due		
12/31/2009	5/15/2010	June 2009	5/15/2010	5/15/2010	9/30/2010	9/30/2010	6/30/2010
9/30/2009	2/15/2010	June 2009	2/15/2010	2/15/2010	6/30/2010	6/30/2010	3/31/2010
8/31/2009	1/15/2010	June 2009	1/15/2010	1/15/2010	5/31/2010	5/31/2010	2/28/2010
6/30/2009	11/15/2009	³	11/15/2009	11/15/2009	3/31/2010	3/31/2010	12/31/2009⁴
3/31/2009	8/15/2009	June 2008	8/15/2009	8/15/2009	12/31/2009	12/31/2009	9/30/2009
2/28/2009	7/15/2009	June 2008	7/15/2009	7/15/2009	11/30/2009	11/30/2009	8/31/2009
1/31/2009	6/15/2009	June 2008	6/15/2009	6/15/2009	10/31/2009	10/31/2009	7/31/2009

¹ The CDE Audits and Investigations Division may grant to a child care and development contractor a one-time-only, 30-calendar-day extension of the audit due date, under certain conditions (Section 212)

² A local government must provide a Comprehensive Annual Financial Report (CAFR) and/or a *Single Audit* by the date that a *Single Audit* would be due (Section 210.B.1.c)

³ A reconciliation is not needed in an audit when the contractor's and state's fiscal years both end June 30 (Section 216)

⁴ The due date for audits of Community Colleges, which have a fiscal year-end of June 30, is December 31 (Section 210.B.3.b)

Chapter 200 – General Reporting and Administration
Extension Request Form

COMPANY LETTERHEAD

Telephone Number **and Facsimile (FAX) Number**

[Date]

Audit Manager, Audit Reports Review Section
California Department of Education
Audits and Investigations Division

___ MAIL: 1430 N Street, Suite 5319
Sacramento, California 95814, or

___ FAX: (916) 323-4460

Contractor: _____ **Vendor No.** _____

Executive Director: _____ (Name) _____ (Telephone Number)

In accordance with *Title 5, California Code of Regulations, Section 18073*, we are requesting a **one-time-only, 30-calendar-day extension** of time to file the required child development audit report. It was beyond the fault and control of the contractor to submit the audit by the due date for the following reason:

Requested by: _____ (Print Name) _____ (Print Title)

_____ (Sign) _____ (Date)

For Use by CDE Only:

___ **Extension is Granted to the New Due Date of** _____.

___ **Extension is Denied Because:**

- ___ Contractor is on conditional contract status
- ___ No extension is granted for a request made after 4:00 PM on the day prior to the due date
- ___ A second extension is not allowed

By: _____ (Signature) _____ (Date)

Chapter 200 - General Reporting and Administration
Example of Reconciliation of Fiscal Year Not Ending on June 30

**Reconciliation of Organization's Fiscal Year Ending December 31, 2017
With Child Development (CD) Program's Fiscal Year Ending June 30, 2017**

	Organization's Statement of Activities 1/1/17 to 12/31/17	Minus All Transactions 7/1/17 to 12/31/17	Minus Non-CD Transactions 1/1/17 to 6/30/17	Plus CD Transactions 7/1/16 to 12/31/16	Total CD Program (a) 7/1/16 to 6/30/17
Revenue and Support					
Federal Grants	\$2,800,000	\$1,500,000	\$1,145,000	\$165,000	\$320,000
State Grants	1,350,000	800,000	240,000	75,000	385,000
Other	500,000	425,000	70,000	4,500	9,500
Total Revenue and Support	<u>4,650,000</u>	<u>2,725,000</u>	<u>1,455,000</u>	<u>244,500</u>	<u>714,500</u>
Expenses					
1000 Certificated Salaries	1,743,000	1,043,885	567,795	96,073	227,393
2000 Classified Salaries	1,162,000	695,923	378,530	64,049	151,596
3000 Employee Benefits	726,000	434,802	206,500	34,941	119,638
4000 Books and Supplies	300,000	169,670	92,288	15,615	53,658
5000 Services and Other	550,000	289,396	177,410	20,019	103,213
6000 Capital Outlay	50,000	29,945	16,288	2,756	6,523
Other	19,000	11,379	6,189	1,047	2,479
Total Expenses	<u>4,550,000</u>	<u>2,675,000</u>	<u>1,445,000</u>	<u>234,500</u>	<u>664,500</u>
Change in Net Assets	<u>100,000</u>	<u>\$50,000</u>	<u>\$10,000</u>	<u>\$10,000</u>	<u>50,000</u>
Net Assets, Beginning of Year	<u>1,145,600</u>				<u>30,000</u>
Net Assets, End of Year	<u>\$1,245,600</u>				<u>\$80,000</u>

(a) From *Combining Statement of Activities*

CHAPTER 300

REPORTING CHILD CARE AND DEVELOPMENT PROGRAMS

TABLE OF CONTENTS

	<u>Section</u>
Introduction.....	300
Child Care and Development Programs Subject to Audit.....	305
Child Development Programs Subject to Audit.....	Table 3-1
Required Supplementary Information (includes AUD forms).....	310
Days of Enrollment, Operation, and Attendance.....	315
Reimbursable Start-Up Expenses (Service Level Exemption).....	330
Reimbursable Equipment Expenditures.....	335
Reimbursable Expenditures for Buildings and Improvements.....	340
Reimbursable Administrative and Indirect Costs.....	345
Reporting Subcontracts for Operating Child Development Programs.....	350
Reserve Accounts for Child Development Programs.....	355

INTRODUCTION

300

CD program revenues and expenses are reported as part of an organization's transactions that are included in the basic financial statements of an organization's audit. In addition, the CDE requires the audit to contain supplementary information that includes *Audited Attendance and Fiscal Reports, or Audited Fiscal Reports* (AUD forms) that represent an organization's official claim for reimbursement of CD program costs. The AUD forms must be supported by other supplementary information identified in Exhibit A, Chapter 200, entitled *Audit Report Contents*. The AUD forms and supplementary schedules are discussed below.

Most CD programs operate under one-year contracts that require reimbursable program costs be incurred during the contract period. The annual audit includes:

- Financial statements that report these costs to CDE, in accordance with GAAP either as expenses in the *Statement of Activities*, or as capital outlays (e.g., property and equipment) in the *Statement of Financial Position*.
- AUD forms that report these costs to CDE, in accordance with the contract funding terms and conditions, as expenses (even property and equipment are reported as expenses), without regard to GAAP.

The GAAP and CDE reporting of expenses is the same, except that reimbursable audit costs may be claimed on an AUD form during the contract period for which the audit is being performed, or in which the audit is completed.

The GAAP reporting and CDE reporting of capital outlays differ. Under GAAP reporting, a capital asset would be depreciated over a period of years and only one year's depreciation would be expensed during a contract period (on financial statements). However, under CDE reporting, the entire capital asset must be expensed during the contract period (on CDE forms/reports), or the unspent funds would have to be returned to CDE.

Because of GAAP and CDE reporting differences, a reconciliation is required that will serve as a link between the basic financial statements and CDE's supplementary information (e.g., AUD forms), as explained in Section 310.

The following sections describe the CD programs subject to audit and how to report claims for reimbursement and the related supporting information.

CHILD CARE AND DEVELOPMENT PROGRAMS SUBJECT TO AUDIT

305

The CD programs subject to audit are listed in Table 3-1. Organizations, called contractors, administer these programs under one or more contracts with the CDE. The audit reporting requirements are detailed in Chapter 200. The primary program types and reporting characteristics are summarized below.

CHILD CARE AND DEVELOPMENT PROGRAMS SUBJECT TO AUDIT

305

- A. Center Based Programs. These programs require the contractor to report days of enrollment, operation, and attendance; and revenue and expenses:
 - 1. Special Programs for the Severely Handicapped
 - 2. Preschool (Full-Day and Part-Day)
 - 3. Prekindergarten and Family Literacy (Full-Day and Part-Day)
 - 4. Child Development
 - 5. Migrant Program
 - 6. School Age Community Child Care Services – Days or Hours

- B. Alternative Payment Programs. These and certain other programs require the contractor to report revenue and expenses and days of operation:
 - 1. Alternative Payment (including CalWORKs stages 2 and 3)
 - 2. Family Child Care Home
 - 3. Migrant Alternative Payment Program

- C. Resource and Referral Program. This program requires that the contractor report revenue and expenses.

- D. Quality (Support) Contracts. These contracts, which may be for multiple years, augment other contracts, such as for health and safety training activities. Contractors must report revenue and expenses.

- E. The federally funded portion of child care and development programs falls under two Catalog of Federal Domestic Assistance (CFDA) numbers:
 - 1. Child Care and Development Block Grant – CFDA 93.575
 - 2. Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596

The amounts of federal and state funding for each contract are identified on the contract's face sheet. Also, contract reimbursements and advance apportionments for federal and state funding are specified by a five-digit CDE Program Cost Accounting (PCA) number on the remittance advice accompanying each check. A funding payment will have a five-digit PCA number that begins with "1" to designate a federal payment, or "2" to designate a state payment.

TABLE 3-1

Child Development Programs Subject to Audit		
Audited Attendance and Fiscal Reports and Audited Fiscal Reports (AUD Forms)		
AUD Form No.	Contract No. Prefix	Child Development Programs, Fiscal Year 2008-09
1400	CHAN	Special Programs for the Severely Handicapped
2507	CRRP	Resource and Referral Programs
2507	CCEL	Centralized Eligibility List (Support Contract Exception)
8501	CPRE	State Preschool (Part-Day)
8501	CPKP	Prekindergarten and Family Literacy (Part-Day)
9500	CCTR	Child Development Programs
9500	CMIG	Migrant Program (Full-Year and Part-Year)
9500	CFDP	State Preschool (Full Day)
9500	CPKF	Prekindergarten and Family Literacy (Full-Day)
9500-A	CMSS	Migrant Special Services
9500-AP	CAPP	Alternative Payment
9500-AP	C2AP	CaWORKs Stage 2 Alternative Payment
9500-AP	C3AP	CaWORKs Stage 3 Alternative Payment
9500-AP	CFCC	Family Child Care Home
9500-AP	CMAP	Migrant Alternative Payment Program
9516-D	CLTK	School Age Community Child Care Services – Days
9516-H	CLTK	School Age Community Child Care Services – Hours
Child Development Support Contracts (Except CCEL, Noted Above)		
9529	CHST	Health and Safety Training Project
9529	CLPC	Local Child Care and Development Planning Council
9529	CPKS	Prekindergarten and Family Literacy (Support)
9529	CRET	Salary/Retention Incentive Program
9529	CRPM	Renovation and Repair Project
<p>For annual updates, refer to the Child Development Fiscal Services Web site at http://www.cde.ca.gov/fq/aa/cd/index.asp</p>		

REQUIRED SUPPLEMENTARY INFORMATION (INCLUDES AUD FORMS) 310

A contractor incurs certain CD program expenses while administering a CD contract. To obtain CDE reimbursement to pay for those expenses, a contractor must provide CDE an annual financial and compliance audit that includes an *Audited Attendance and Fiscal Report* or *Audited Fiscal Report* (AUD form) for each contract, plus supporting schedules and other information, together referred to as supplementary information. The supplementary information is “supplemental” to the basic financial statements.

A. AUD Form

The AUD form summarizes the revenue and expenses associated with a CD contract. There are two types of AUD forms: (1) an *Audited Attendance and Fiscal Report* is used for reporting center-based programs such as State Preschool; and (2) an *Audited Fiscal Report* must be used for reporting alternative payment programs, resource and referral programs, or other programs not requiring the reporting of enrollment and attendance. Both types of reports are referred to as AUD forms because the forms have the prefix “AUD.” A list of AUD forms is provided in Table 3-1. Also, see examples of completed AUD forms in Appendix A. Note that an AUD form is to be provided for each contract, even if it includes zero amounts.

For convenience, the A&I Web site located at <http://www.cde.ca.gov/fg/au/pm/>, contains an interactive Microsoft Excel © 2003 Workbook for use in completing AUD forms (under “Resources,” click on “Audited Attendance and Fiscal Report Forms”). The AUD form numbers are identified on the Workbook tabs for each page of the AUD form. Also, the Web site provides instructions for completing AUD forms (click on “Instructions”).

IMPORTANT: When completing the AUD forms for CD contracts (e.g., AUD 9500), note that Column A, titled Cumulative Fiscal Year per Agency, is to contain amounts from Column C of the respective CDFS forms’ fiscal pages (e.g., CDFS 9500 cumulative amounts as of June 30). So, the independent auditor must review the cumulative amounts on the CDFS forms to verify the correct data is carried over to the AUD forms.

Beginning in fiscal year 2008-09, AUD claim forms have an extra fiscal page that reports supplemental revenue and expenses that are part of the program. The primary types of revenue and supplemental revenue are reported as follows.

REVENUE

Do not report CD contract payments received from CDE.

Restricted Income – Income restricted by a donor or CDE for the purchase of goods and services that are reimbursable under a CDE contract in the current

REQUIRED SUPPLEMENTARY INFORMATION (INCLUDES AUD FORMS) 310

program year. Report restricted income only when related expenses are reported under *Reimbursable Expenses*.

- Child Nutrition Programs – Revenue received from the CDE’s Nutrition Services Division under an agreement for the Child and Adult Care Food Program or other child nutrition programs for centers.
- County Maintenance of Effort – Funds received from a county that are restricted for child care operating costs in the current fiscal year (EC Section 8279).
- Transfer from Reserve Fund – Funds transferred from the reserve account to pay for reimbursable expenses.
- Family Fees for Certified Children – Fees collected by the contractor to pay expenses for certified children being served under the contract. (Any family fees for noncertified children are to be reported under *Unrestricted Income*.)
- Interest on Apportionment Payments – Interest earned on payments advanced for the contract.
- Other Restricted Income – Includes in-kind donations and fees collected from fundraising, field trips, workshops, or other activities and services, for which related expenses are reported under *Reimbursable Expenses*.

Unrestricted Income (center-based contracts) – Income used to pay reimbursable expenses for noncertified children. This includes family fees for noncertified children. Report related expenses under *Reimbursable Expenses*. Preschool Exception: For State Preschool (part-day) programs only, federal Head Start funds used to build capacity are deemed to be unrestricted [EC Section 8235(b)].

SUPPLEMENTAL REVENUE

Supplemental revenue is income used to pay for CDE program expenses that are not reimbursable by the CDE. The funds are intended to pay for projects or benefits beyond the basic child development services for certified and noncertified children. Such income includes Head Start, First 5 and other enhancement funds, and donations from individuals or other entities. Supplemental revenue may be restricted or unrestricted. Report related expenses under *Supplemental Expenses – Expenses Related to Supplemental Revenue*.

Supplemental revenue also could be used to pay for goods and services that are not reimbursable under the contract. For example, if an auditor disallowed employee

REQUIRED SUPPLEMENTARY INFORMATION (INCLUDES AUD FORMS) 310

bonuses, those expenses would be reported under *Supplemental Expenses – Nonreimbursable Expenses*.

Additional AUD reporting guidance is provided in sections 315 through 350.

Information entered on the two fiscal pages of each AUD form is to be summarized on a *Schedule of Expenditures by State Categories*, described below.

B. Schedule of Expenditures by State Categories

The expenses reported on the two fiscal pages of the AUD form for each CDE contract must agree with the expenditures reported on the *Schedule of Expenditures by State Categories* (example in Appendix A), as follows:

<i>Schedule of Expenditures by State Categories</i>	AUD Form Fiscal Pages
Total expenses claimed for reimbursement	First fiscal page – Total expenses claimed for reimbursement
Total supplemental expenses	Second fiscal page – Total supplemental expenses

The AUD forms and the *Schedule of Expenditures by State Categories* may include expenses that are not reported according to GAAP. For example, CDE requires all CD-funded equipment purchases to be expensed on AUD forms, even if the equipment would be capitalized (recorded as an asset) under the contractor’s accounting policies. Because GAAP would require such equipment to be capitalized, rather than expensed, the differences between CDE and GAAP reporting must be reconciled, as explained in Subsection 310.D.

The *Schedule of Expenditures by State Categories* must contain the following auditor’s statement that indicates the entity complied in all material respects with the applicable compliance requirements:

We have examined the claims filed for reimbursement and the original records supporting the transactions recorded under the contracts listed above to an extent considered necessary to assure ourselves that the amounts claimed by the contractor were eligible for reimbursement, reasonable, necessary, and adequately supported, according to governing laws, regulations, and contract provisions.

If material noncompliance exists (see Section 708, Materiality and Extent of Compliance Testing), it should be reported in accordance with Section 720.

REQUIRED SUPPLEMENTARY INFORMATION (INCLUDES AUD FORMS) 310

The expense information entered on the *Schedule of Expenditures by State Categories*, with minor differences, is to be entered onto a *Combining Statement of Activities*, which is described below. The *Combining Statement of Activities* includes revenue, as well as expenses, and reports them in accordance with GAAP.

C. Combining Statement of Activities

The audit must include a *Combining Statement of Activities* for the current year ended June 30 (example in Appendix A), which presents all revenue and expenses reported according to GAAP for (1) each CD contract, both individually and in total; and (2) any non-CDE programs, either individually and/or in total. The revenue and expenses reported on the *Combining Statement of Activities* must agree in total with those reported in the basic financial statements on the *Statement of Activities*. If the contractor has a fiscal year ending on a date other than June 30 of the state contract fiscal year, the audit must reconcile the revenue and expense data reported for the two periods (see Section 216, *Reconciliation of Fiscal Years not ending on June 30*).

Note: for CDE-funded child care food programs for centers (e.g., CACFP), do not report food revenue and expenses in a separate column. Instead, report each food agreement with its identifying agreement number on a separate line, allocating food revenue amounts to the appropriate CD contracts with its identifying contract numbers and any applicable non-CDE child care programs. If multiple food agreements make this impractical, then show the totals on one line and reference a separate schedule or note that clearly identifies the allocation for each food agreement. Account for all nutrition revenue, i.e., the total amount reported as paid (reimbursed) on the CDE's *Nutrition Claim History Report* for the current fiscal year-end. Report food expenses in the appropriate line item category and under the appropriate headings for CDE contracts and for non-CDE child care programs (e.g., Head Start).

D. Reconciliation of CDE and GAAP Expense Reporting

When there is a difference between CDE and GAAP expense amounts, the audit must contain a *Reconciliation of CDE and GAAP Expense Reporting* (example in Appendix A). This will tie together the *Schedule of Expenditures by State Categories* and the CDE program expenses on the *Combining Statement of Activities*, serving as a link between AUD forms and the basic financial statements.

DAYS OF ENROLLMENT, OPERATION, AND ATTENDANCE

315

On the applicable AUD form for center-based programs, report the days of enrollment, operation, and attendance for certified children enrolled in the program. Also, report the days of enrollment for any noncertified children enrolled in the program. The figures subject to audit will be the data from the forms that the organization submitted to CDE's Child Development Fiscal Services (CDFS) for the fiscal year end. For example, if an organization submitted form CDFS 8501, then the audit must include a form AUD 8501.

For alternative payment programs, report days of operation at the end of Section II of form AUD 9500-AP.

For guidance on reporting, refer to the CDE publication titled *Child Development Attendance and Fiscal Reporting and Reimbursement Procedures*, also known as the "Greenbook," located on the Web site at <http://www.cde.ca.gov/fg/aa/cd/>. In the Greenbook, note the sections on Commingled versus Co-Located Programs, Enrollment versus Attendance, and Days of Operation.

REIMBURSABLE START-UP EXPENSES (SERVICE LEVEL EXEMPTION)

330

If a contract authorizes start-up expenses (service level exemption) for a new or expanded program, the contractor may claim reimbursement for such expenses, provided they were incurred and eligible under Section V.D of the applicable contract's *Funding Terms and Conditions for Child Development Programs (FT&C)*. You may access the *FT&C* in the Regulations and Requirements section of the Web site at <http://www.cde.ca.gov/fg/aa/cd/>.

Reimbursable start-up expenses shall occur prior to attainment of full enrollment. The amount of start-up expenses is not an additional amount that is added to total expenses. It is an amount that may be reimbursed without the required enrollment to earn it. For example, if a portion of materials and supplies is attributed to a new or expanded program for which start-up expenses have been authorized, the contractor may classify the applicable portion of materials and supplies as start-up expenses. Even though the total expense amount claimed would remain the same, the organization could receive additional funds because of the service level exemption. Appendix A contains an example where the contractor would have had to repay the CDE \$52,200 had the contractor not classified eligible expenses as start-up expenses.

Also note that a migrant part-year program could have close-down costs. For additional guidance, refer to the "Greenbook," described above.

Contractors shall maintain an auditable record of start-up costs (and close-down costs) that shall be included within the audit at the end of the year (*FT&C*, Section V.D). Appendix A of this audit guide illustrates a *Schedule of Reimbursable Start-Up Expenses* that also accommodates close-down costs for migrant programs.

REIMBURSABLE EQUIPMENT EXPENDITURES**335****A. Equipment Category Definitions**

Equipment acquired with CDE contract funds is accounted for as either capitalized or not capitalized, depending on criteria set forth in the CSAM, Procedure 770, as explained below. The various types of equipment are classified into Object Classification Codes (Objects) identified in CSAM, Procedure 330.

1. Noncapitalized equipment is equipment that meets any one of the following criteria:
 - a. Equipment costs less than the established capitalization threshold.
 - b. Equipment endures less than a year (consumed or worn out).
 - c. Equipment would be replaced rather than repaired.
 - d. Equipment may be incorporated into another unit item rather than remaining an independent item.
 - e. Equipment tagging and inventorying is a large percentage of the cost of the equipment. (This applies when the equipment otherwise meets the criteria in this section).
2. Non-capitalized equipment is classified under two Objects:
 - a. Materials and Supplies (Object 4300) – Equipment costing \$500 or less.
 - b. Non-capitalized Equipment (Object 4400) – Equipment costing over \$500, but less than the established capitalization threshold.
3. Capitalized equipment (a) costs more than the established capitalization threshold and (b) does not meet any of the other criteria listed in Subsection 335.A.1. The federal definition of capitalization threshold is \$5,000 or more. The CSAM recommends this threshold when capitalizing equipment acquired under state contracts. (However, a contractor may use a capitalization threshold amount that is lower or greater than \$5,000, according to its established policy.)
4. Capitalized equipment is classified under two Objects:
 - a. New Equipment (Object 6400) – Movable personal property such as vehicles, computer systems, and playground equipment.
 - b. Replacement Equipment (Object 6500) – Equipment that replaces similar equipment on a piece-for-piece basis.

B. Equipment Inventory

A physical inventory of equipment must be taken at least every two years and reconciled with property records (*FT&C*, Section III.D). Also, the CDE has a reversionary interest in equipment purchased with state funds; title shall vest with

REIMBURSABLE EQUIPMENT EXPENDITURES**335**

the contractor only for such period of time as the contractor has a contract with the CDE (FT&C, Section III.E).

C. Reporting Reimbursable Equipment Expenditures

Equipment expenditures funded by the CDE should be reported in accordance with the CSAM Object requirements, described above; and in a manner that maintains consistency among the AUD forms, *Schedule of Expenditures by State Categories*, and *Schedule of Reimbursable Equipment Expenditures*. Include on the supplemental fiscal AUD form any equipment acquired with non-CDE funds for use in the CDE program.

1. AUD Forms

- a. Include in Object 4000, Books and Supplies, the Materials and Supplies classified under Object 4300 and the Noncapitalized Equipment classified under Object 4400, as described in Subsection 335.A.2.
- b. Object 6400, New Equipment (*program-related*) – report capitalized equipment newly acquired for use in the program related to the contract.
- c. Object 6500, Equipment Replacement (*program-related*) – report capitalized equipment acquired for replacement of similar equipment on a piece-for-piece basis.

2. *Schedule of Expenditures by State Categories*

Equipment classified under Objects 4000, 6400, and 6500 should be included in the *Schedule of Expenditures by State Categories* under the appropriate section of the left column with amounts entered under the appropriate column for each CDE contract.

3. *Schedule of Reimbursable Equipment Expenditures*

This schedule should include capitalized equipment acquired with CDE contract funds and classified under Objects 6400 and 6500. If the contractor decides to share the use of the equipment among programs, the cost of such equipment shall be prorated among the programs, according to benefits received (FT&C, Section III.E.3).

Also, the equipment should be categorized by the following cost levels:

- Unit cost under \$7,500
- Unit cost over \$7,500, with prior written CDE approval
- Unit cost over \$7,500, without prior CDE approval.

REIMBURSABLE EQUIPMENT EXPENDITURES**335**

Indicate the number of items if more than one item is included in a particular type of equipment. List amounts under the appropriate column for each CDE contract. Include a separate column, by contract number, for equipment that is included in start-up costs. If the cost of the equipment is shared among non-CDE programs, include at least one column for non-CDE programs. Show the sum of all CDE contracts and non-CDE programs in the “Total” column.

The related bidding and prior approval requirements are contained in the *Title 5, CCR*, Section 18040 and *FT&C*, Section III.C. When determining if an equipment purchase exceeds the \$7,500 approval threshold, all expenses associated with the purchase that are necessary for the equipment to perform its intended purpose should be included in calculating the purchase cost. For example, when purchasing a computer system that exceeds \$7,500, the contractor may not report individual computer components of less than \$7,500 to circumvent the approval process.

D. Reporting Depreciation

According to the *Title 5, CCR*, Section 18034 and *FT&C*, Section III.A, equipment depreciation (or use allowance) may or may not be reimbursable under a contract, depending on the source of funds used to purchase the equipment.

1. Depreciation is not reimbursable and shall not be claimed on equipment that is donated, purchased with public funds (e.g., using CDE contract funds or other government funds), or fully depreciated. A use allowance is not reimbursable and shall not be claimed on equipment that is purchased with contract funds, or on equipment for which depreciation has been claimed.
2. Depreciation is reimbursable and may be claimed on capitalized equipment purchased with non-donated, nonpublic funds (e.g., noncertified family fees, or investment income, unless it is being used to meet a federal matching requirement).
3. A use allowance is an alternate method of amortization when depreciation is not claimed. The use allowance for equipment is computed at an annual rate not to exceed six and two-thirds percent of acquisition costs.
4. Reimbursable depreciation or use allowance should be reported under *Depreciation or Use Allowance* on both the *Schedule of Expenditures by State Categories* and the applicable AUD forms.

REIMBURSABLE EQUIPMENT EXPENDITURES

335

E. Reconciling CDE and GAAP Expense Reporting

The entire reimbursable cost of equipment, which might otherwise be capitalized for accounting purposes, is expensed and reported to the CDE. Conversely, CDE reporting excludes depreciation of CDE program assets that were donated or purchased with CDE contract funds or other government funds. To resolve such differences, the audit must include the schedule titled *Reconciliation of CDE and GAAP Expense Reporting* to reconcile GAAP reporting on the *Combining Statement of Activities* to CDE’s supplementary reporting on the *Schedule of Expenditures by State Categories*. The above-mentioned schedules are illustrated in the sample audit report at Appendix A.

REIMBURSABLE EXPENDITURES FOR BUILDINGS AND IMPROVEMENTS

340

A. Reimbursable Expenditures for Buildings and Improvements

Expenditures for buildings and improvements funded by the CDE may be reimbursable if they are used to:

1. Acquire relocatable facilities (portable classrooms) under the Child Care Facilities Revolving Fund (CCFRF), the CDE’s lease-purchase program.
2. Renovate, remodel, or replace child care facilities. This would include improving facility sites, e.g., grading, landscaping, and planting shrubs and trees; constructing new sidewalks, roadways, and storm drains; furnishing and installing fixed playground apparatus, flagpoles, and fences; and doing demolition work in connection with improving sites. Also, it would include site improvement costs to leased property.
3. Acquire or construct non-relocatable facilities (buildings)

B. Acquiring or Constructing Non-relocatable Facilities – This Subsection is Reserved for Future Use

C. Acquiring Relocatable Facilities

Relocatable buildings may be acquired under the CCFRF, which provides funding to agencies with center-based programs, primarily for the acquisition of relocatable buildings, including site development and improvement. The CCFRF lease payments may be capitalized for accounting purposes pursuant to Statement of Financial Accounting Standard No. 13 or FASB 13, but are presented as expenditures in CDE reports under the Objects 6100/6200 *Other Approved Capital Outlay*. Note: Do not report CCFRF lease payments in Object 5000, and do not include them in the base for calculating indirect costs.

REIMBURSABLE EXPENDITURES FOR BUILDINGS AND IMPROVEMENTS 340

D. Renovation and Repairs

1. Renovation and repairs are improvements of child care facilities, facility sites and adjacent grounds where the improvements do not increase the facility's value beyond what is required to meet community care licensing standards. For example, the work may be to:
 - a. Remodel or replace bathroom lavatories and fixtures.
 - b. Repaint parking lot surfaces to establish ADA accessible spaces.
 - c. Paint building(s).
 - d. Renovate or replace playground areas.
 - e. Replace unsafe carpet.
 - f. Resolve other health and safety code violations.

An organization that executes a Facilities Renovation and Repair Project quality support contract (CRPM contract number prefix) with the CDE may use the funds for specific purposes. Certain restrictions are specified in the CRPM contract *FT&C*. Also, the CDE allows renovation and repair costs to be charged under center based contracts (*FT&C*, Section III.F).

2. For accounting purposes, renovation and repairs purchased under a CDE contract are either capitalized or not capitalized, depending on the organization's approved capitalization threshold. The various types of renovation and repairs are classified into Objects, by *CSAM*, Procedure 330, as follows:
 - a. Noncapitalized renovation and repairs are those that cost less than the established capitalization threshold. They would be classified under *Rentals, Leases, Repairs, and Noncapitalized Improvements* (Object 5600).
 - b. Capitalized renovation and repairs are those with a cost equal to or more than the organization's established capitalization threshold. They are classified under the following two Objects, which are combined and presented on AUD forms and other CDE reports as 6100/6200 *Other Approved Capital Outlay*:
 - (1) *Land Improvements* (included in Object 6100): Work on old sites and adjacent ways, such as replacing sidewalks, landscaping, retaining walls, sewers and storm drains, and fences.
 - (2) *Building Improvements* (Object 6200): Work such as repairing or replacing faulty electrical wiring, painting interior or exterior walls, and repairing or replacing air conditioning or heating systems. Architectural and engineering fees, tests, and inspections are included.

REIMBURSABLE EXPENDITURES FOR BUILDINGS AND IMPROVEMENTS 340

E. Reporting Reimbursable Expenditures for Renovation and Repairs

CDE funded expenditures for renovation and repairs should be reported in a manner that maintains consistency between the AUD forms, *Schedule of Expenditures by State Categories*, and *Schedule of Reimbursable Expenditures for Renovations and Repairs*. Include on the supplemental fiscal AUD form any such buildings and renovation and repairs acquired with non-CDE funds for use in the CDE program.

1. AUD Forms

- a. Object 5000, Services and Other Operating Expenses – include any renovation and repair expenses that are not capitalized (Object 5600).
- b. Objects 6100/6200, Other Approved Capital Outlay – report capitalized renovation and repair expenses charged to the contract.

2. *Schedule of Expenditures by State Categories*

Report amounts in the same Object Categories as reported on AUD forms (Subsection 340.E.1) and enter amounts under the respective column for applicable CDE contracts.

3. *Schedule of Reimbursable Expenditures for Renovations and Repairs*

Report the contractor's capitalized expenditures (Objects 6100/6200) for renovations and repairs under the appropriate column for applicable CDE contracts. Report according to the cost levels indicated below:

- Unit cost under \$10,000 per item
- Unit cost of \$10,000 or more per item with prior CDE written approval
- Unit cost of \$10,000 or more per item without prior CDE approval.

The related bidding and prior approval requirements for renovation and repairs in center-based programs are contained in Title 5, *CCR*, 18040(b) and *FT&C*, Section III.F. Approval for CRPM quality support contracts is implicit in the CDE's approval of the contracts.

Please note when determining whether the purchase price meets or exceeds the \$10,000 approval threshold, all expenses associated with the purchase that are necessary for completion of the work should be included in calculating the cost of the renovation. For example, when renovating a playground area with a cost of \$10,000 or more, the contractor must not report individual playground components of less than \$10,000 to circumvent the approval process.

REIMBURSABLE EXPENDITURES FOR BUILDINGS AND IMPROVEMENTS 340

F. Reporting Depreciation

Depreciation of relocatable buildings acquired under the CCFRF program is not reimbursable. However, the depreciation or use allowance for renovation and repairs may or may not be reimbursable, depending on the source of funds used to purchase the renovation and repairs, according to the *FT&C*, Section III.A.

1. Depreciation is not reimbursable and shall not be claimed on renovation and repairs that are donated, purchased with public funds (including CDE contracts), or fully depreciated. A use allowance is not reimbursable and shall not be claimed on land or assets purchased with contract funds or on assets for which depreciation has been claimed.
2. Depreciation is reimbursable and may be claimed on capitalized renovation and repairs purchased with non-donated, nonpublic funds (e.g., parent fees, unless such funds are being used to meet a federal matching requirement).
3. A use allowance is an alternate method of amortization when depreciation is not claimed. The use allowance for buildings and improvements is computed at an annual rate not to exceed two percent of acquisition costs.
4. Reimbursable depreciation should be reported under *Depreciation or Use Allowance* on both the *Schedule of Expenditures by State Categories* and the applicable AUD forms.

G. Reconciling CDE and GAAP Expense Reporting

The reimbursable cost of a capital improvement, which would be capitalized for accounting purposes, is expensed and reported to the CDE according to the *FT&C*, Section VI. Conversely, CDE reporting excludes depreciation of CDE program assets that were donated or purchased with public funds, as noted in Subsection 340.F.1. To resolve such differences, the audit shall include the schedule titled *Reconciliation of CDE and GAAP Expense Reporting* to reconcile GAAP reporting on the *Combining Statement of Activities* to CDE's supplementary reporting on the *Schedule of Expenditures by State Categories*.

The above-mentioned schedules are illustrated in the sample audit report at Appendix A.

REIMBURSABLE ADMINISTRATIVE AND INDIRECT COSTS**345****A. Administrative Costs**

Administrative costs include (1) any reimbursable indirect costs, (2) audit costs, and (3) the cost of activities that do not provide a direct benefit to the children, parents, or providers. Contractors may claim administrative costs that are directly related to the provision of CD services. For Center-Based CD programs, total administrative costs may not exceed 15 percent of net reimbursable program costs (total expenses, minus restricted income and nonreimbursable costs) or actual administrative costs. For Alternative Payment CD programs, total administrative costs may not exceed 15 percent of the greater of net costs or the initial maximum reimbursable amount.

Administrative expenses must be reported on the appropriate lines in the “Reimbursable Expenses” section, and in total on the “Total Administrative Cost” line, below the “Total Expenses” line on the AUD forms. Administrative costs include any reimbursable indirect costs. Exception: the AUD 2507, which reports Resource and Referral or Centralized Eligibility List programs, does not have a “Total Administrative Cost” line because all expenses reported for those programs would be administrative in nature.

It should be noted that a contractor must maintain written documentation of the rationale used in determining administrative costs if the contractor has more than one CDE program (*FT&C*, Section VI.E).

B. Indirect Costs

Indirect costs are general and administrative costs that benefit the operations of the entire organization, but cannot be identified to specific programs or activities. They usually are the same types of indirect costs that are described in the cost principles of Office of Management and Budget (OMB) Circulars, e.g., OMB Circular A-122, *Cost Principles for Non-Profit Organizations*.

Indirect costs may be reported on the “Indirect Costs” line of the AUD form, only if they are reimbursable under the contract *FT&C*, and the contractor has a written cost allocation plan on file (e.g., in the contractor’s main accounting office). The plan should be approved by the board of directors (not-for-profits), or other appropriate governing body (local governments). Indirect costs claimed for CDE contracts may not exceed the maximum indirect cost rate of 8 percent times the sum of (1) the direct costs reported on fiscal reports in object codes 1000 through 5000, and (2) any provider payments.

C. Schedule of Reimbursable Administrative Costs

The audit report must include a *Schedule of Reimbursable Administrative Costs* (example in Appendix A), which is part of the required Supplementary Information

REIMBURSABLE ADMINISTRATIVE AND INDIRECT COSTS 345

listed in Exhibit A of Chapter 200. These costs must be listed for each CDE contract and may be presented by functional category, or by the CSAM object code shown on the AUD forms. The schedule's totals for each contract must agree with the amount of Total Administrative Costs reported on the respective AUD forms.

REPORTING SUBCONTRACTS FOR OPERATING CHILD DEVELOPMENT PROGRAMS 350

An organization that operates a CD program under a direct service contract with the CDE is called a contractor. The contractor may choose to enter into an agreement with another organization (subcontractor) where the subcontractor operates one or more of the contractor's CD programs. Consequently, an entity may be acting in the dual capacity of contractor and subcontractor for one or more CDE contractors – each having one or more CDE contracts. In some cases, a subcontractor may not have its own CDE contract directly with the CDE. This does not apply to subcontractors that operate CD programs for school districts.

Subsection 210.D requires both the contractor and subcontractor to report contracts and subcontracts in a similar manner. In addition to reporting each CDE contract and subcontract on a separate AUD form, each contract and subcontract must be listed in a separate column on the *Schedule of Expenditures by State Categories, Combining Statement of Activities*, and other applicable supplementary audit schedules (example in Appendix A).

The contractor's AUD form for those contracts that have been subcontracted to another organization shall report the cumulative fiscal year amounts of revenue and expense from the subcontractor's AUD form, plus any revenue and expense amounts added by the contractor, e.g., for administration. The amounts of revenue and expenses added by the contractor should be described in the comments section of the AUD form.

The subcontractor's independent auditor must amend the subcontractor's AUD form on the "Name of Agency" section to include both the name of the subcontractor and the name of the contractor. In addition, the independent auditor shall include a footnote on the *Schedule of Federal Award Expenditures and State Funds Received*, identifying the name of the contractor and vendor number under which the subcontractor operates. See examples in Appendix A.

RESERVE ACCOUNTS FOR CHILD DEVELOPMENT PROGRAMS 355

Reserve account funds are state CD funds that the contractor *holds in reserve* until the funds are either spent according to the contract funding terms and conditions, or returned to the CDE. There are three types of reserve accounts: center-based, alternative payment, and resource and referral. Each account must be maintained separately due to different maximum limits and use requirements. A contractor with

RESERVE ACCOUNTS FOR CHILD DEVELOPMENT PROGRAMS

355

multiple contracts will have all contracts of the same type contribute to the same reserve account. For example, only center-based contracts can transfer funds to/from a center-based reserve account.

An organization with a reserve account(s) must maintain reserve funds in an interest-bearing account, pursuant to the *EC*, Section 8450, and submit to CDE program staff an annual Reserve Account Activity Report (CDFS 9530-A) for each type of reserve account.

The CDE program staff calculates reserve accounts annually, authorizes any transfers to the reserve account, and provides the organization with an initial Reserve Account Status Report (CDFS 9530). The calculations are based on the year-end (June 30) attendance and fiscal reports for contracts affecting the reserve account. The CDFS 9530 estimates the reserve amounts based on unaudited year-end figures.

After the audit is received and reviewed by the A&I, a post-audit CDFS 9530 is prepared by CDE program staff for each reserve account and sent to the contractor. The post-audit CDFS 9530 will show any amount authorized for transfer to the reserve account, any excess reserve to be billed, and last year's ending balance. If no audit adjustments were made to the year-end (June 30) attendance and fiscal reports, then the reserve amounts should be the same for both the initial CDFS 9530 and post-audit CDFS 9530.

Auditors should verify that reserve account funds are reflected on the organization's Statement of Financial Position in the cash account (deposited in an interest bearing account within the organization's CD fund) and as an offsetting liability (deferred revenue).

All contractors with a reserve account are required to submit with the audit report an Audited Reserve Account Activity Report, Form AUD 9530-A (sample in Appendix A) to verify the activity of the reserve account. It is important to note that an AUD 9530-A must be included for each type of reserve account, even if the account has a zero balance. Also, if no interest was reported because the interest earned was less than one dollar due to a low reserve balance, report that information in the comments section.

For additional information on reserve accounts, see Section VI.N of the appropriate contract's *FT&Cs* and the "Greenbook" on the CDE Web site at <http://www.cde.ca.gov/fg/aa/cd/index.asp>.

CHAPTER 400

REPORTING NUTRITION PROGRAMS

Chapter 400 – Reporting Nutrition Programs

TABLE OF CONTENTS

	<u>Section</u>
Introduction.....	400
Nutrition Programs Subject to Audit.....	410
Child and Adult Care Food Program (CACFP).....	420
CACFP Reimbursement Claims Reporting.....	422
CACFP Required Audit Report Schedules.....	424
CACFP Audit Cost Reimbursement.....	426
School Nutrition Programs (SNP).....	430
SNP Reimbursement Claims Reporting.....	432
SNP Required Audit Report Schedules.....	434
Summer Food Service Program (SFSP).....	440
SFSP Reimbursement Claims Reporting.....	442
SFSP Required Audit Report Schedules.....	444

INTRODUCTION

400

The USDA, Food and Nutrition Services (FNS) manages nutrition programs at the federal level. The CDE, Nutrition Services Division (NSD) oversees nutrition programs at the state level, contracting with nonprofit, for-profit, governmental, and educational entities. It should be noted that local educational agencies, i.e., school districts, are not subject to the *CDE Audit Guide*.

Nutrition program revenues and expenses are reported as part of an organization's transactions that are included in the basic financial statements. In addition, CDE's A&I requires supplementary information that includes nutrition schedules to support an organization's nutrition reimbursement claims. The required supplementary information is identified in Exhibit A at the end of Chapter 200, entitled *Audit Report Contents*.

Nutrition schedules may be required on three types of nutrition programs.

1. Child and Adult Care Food Program (CACFP) – Section 420
2. School Nutrition Programs (SNP) – Section 430
3. Summer Food Service Program (SFSP) – Section 440

The schedules are required on program-specific nutrition audits, *Single Audits*, and for-profit audits when there are overpayments, underpayments, or program findings. In addition, the nutrition schedules are required for audit cost reimbursement requests in the CACFP.

The following sections describe the nutrition programs subject to audit and how to report reimbursement claims and related supporting information.

NUTRITION PROGRAMS SUBJECT TO AUDIT

410

Six federal nutrition programs are administered by the CDE. The programs and the related Catalog of Federal Domestic Assistance (CFDA) numbers are as follows:

1. Food Donation (Commodities) – CFDA 10.550
2. School Breakfast Program – CFDA 10.553
3. National School Lunch Program – CFDA 10.555
4. Special Milk Program for Children – CFDA 10.556
5. CACFP – CFDA 10.558
6. SFSP for Children – CFDA 10.559

These six nutrition programs are administered under four categories: CACFP, Food Donation (Distribution of Commodities), SNP, and SFSP for Children. For a full description of these programs, visit the USDA Web site for FNS at <http://www.fns.usda.gov/fns/>.

NUTRITION PROGRAMS SUBJECT TO AUDIT 410

Any commodities received by an organization are to be reported at fair market value on the *Schedule of Federal and State Awards* (see Appendix A). There are no additional reporting requirements for commodities. Also, reimbursement claiming methods are not applicable for the commodities program. For additional commodities program information, see the CDE Food Distribution Web site at <http://www.cde.ca.gov/ls/nu/fd/manguide.asp>.

CHILD AND ADULT CARE FOOD PROGRAM (CACFP) 420

The CACFP is one of the largest nutrition programs in terms of funding. Nine types of programs are administered under CACFP agreements with the CDE:

<u>Type of Sponsor</u>	<u>Agreement Number Ending Prefix</u>
1. Centers	A
2. Outside School Hour Care Center	C
3. Day Care Homes	F
4. Homeless / Emergency Shelter	H
5. Head Start	J
6. At-Risk Outside-School-Hour	K
7. Sponsor of Independent Centers (SOIC)	M
8. Adult Day Health Care Center (Not For Profit)	N
9. Adult Day Health Care Center (For Profit)	R

CACFP REIMBURSEMENT CLAIMS REPORTING 422

The CACFP claim reporting requirements and methods are summarized below. For additional information, refer to the CACFP Claiming Types and Instructions, located on the CDE Web site at <http://www.cde.ca.gov/fg/aa/nt/cacfp.asp>.

- Fixed Percentage Claiming Method
- Day Care Homes
- Actual Count Claiming Method
- Actual Count Claiming Method for Sponsors of Independent Centers

A. Eligibility and Sites Reporting

Eligibility pertains to centers and sponsors of independent centers, and day care homes. Sites' reporting relates to centers or day care homes, but not sponsors of independent centers.

CACFP REIMBURSEMENT CLAIMS REPORTING**422**

Required schedules for reporting enrollment are identified in Section 424 for applicable sponsors. Also, examples of the schedules are provided in Appendices B and D.

If adjustments are made to enrollment or eligibility data, a finding must be reflected on the *Schedule of Findings and Questioned Costs*. If the monetary effect of the adjustment exceeds \$600, then it must be reported on the Claim for Reimbursement, according to the 2004 USDA Implementation memorandum CACFP 4 (reauthorized), effective October 1, 2004.

The *Schedule of Reported, Adjusted and Allowed Eligibility* (See Appendix B, Exhibit C; and Appendix D, Exhibit D) must break down enrollment data into eligibility categories (free, reduced-price and base) on a monthly basis. The schedule will reflect the reported enrollment to the CDE, any adjustment, and the allowed enrollment. If the schedule is being provided for audit cost reimbursement and there are no adjustments, the reported enrollment must agree to the allowed enrollment for each month. Incomplete schedules will not be accepted.

1. Enrollment and Eligibility**a. Fixed Percentage Claiming Method (All CACFP Sponsors except Day Care Homes and Independent Centers)**

The fixed percentage claiming method requires the sponsor to develop a roster of all enrolled children by eligibility category (free, reduced-price, and base) participating in the CACFP for each active, approved site during the month of October or the first month of operation in the program year. The percentages established will become the sponsor's "fixed" percentage for the fiscal year. Meals claimed will be reimbursed based on the calculated fixed percentages for each category and the sponsor should not re-report the number of free, reduced and base price children enrolled in the program on the *Claim for Reimbursement* for the months following October or the first month of operation as the fixed percentages will remain in effect for the entire fiscal year.

The sponsor may choose to submit new enrollment/eligibility data in order to adjust the percentages and maximize reimbursement. A sponsor must submit new enrollment data during the year if (1) the sponsor adds a new site, (2) the average daily participation for the claim month exceeds the total enrollment previously reported, or (3) to correct a reporting error. An updated roster is required for those subsequent months when new enrollment/eligibility data is reported on the Claim for Reimbursement.

CACFP REIMBURSEMENT CLAIMS REPORTING

422

b. Actual Count Claiming Method (All Sponsors except Day Care Homes)

The "Actual Count" claiming method requires the sponsor to accurately report on a monthly basis the "actual" eligibility categories of enrolled, participating children and the actual number of meals served to the participants in each eligibility category. Percentages are not used.

2. Sites Reporting

a. Child Care Centers

All sites must be approved by NSD prior to being reported. Meals cannot be claimed for sites not approved by the NSD. Visit the CDE Web site at <http://www.cde.ca.gov/ls/nu/rs/> for CACFP meal reimbursement rates. All meals claimed for unapproved sites will not be allowed.

b. Day Care Homes

All sites must be approved by NSD prior to being reported. For day care homes, reported enrollment and sites must be broken down by tier level. Visit the CDE Web site at <http://www.cde.ca.gov/ls/nu/rs/> for CACFP reimbursement rates by tier level. The number of sites claimed by the sponsor may not exceed the number of "active" sites approved by the NSD. To be considered an active site, the provider must have served at least one eligible meal during the month and have at least one eligible enrollment on file.

Auditors must include the number of homes on the *Schedule of Reported, Adjusted, and Allowed Meals and Homes*; and the *Determination of Allowable Administrative Reimbursement* (Appendix C). Site data included on the *Schedule of Reported, Adjusted and Allowed Meals, Sites and Earned Reimbursement*, and on the *Schedule of Reported, Adjusted and Allowed Meals and Homes* must be reported on a monthly basis. Incomplete schedules will not be accepted.

c. Adult Day Care Center

A Site Information Sheet, NSD 5051, must be completed for each site submitted for approval. Each participating center may serve breakfasts, lunches, suppers, and supplemental foods (snacks) that meet prescribed nutritional standards outlined in Schedule B. The sponsor must indicate each meal service proposed at the site on the site application.

CACFP REIMBURSEMENT CLAIMS REPORTING**422**

Each center must be licensed or approved to operate by a federal, state or local government agency. All licenses must be current. A copy of each license or proof of approval to operate must accompany the application.

In addition, a for-profit center may participate as a proprietary Title XIX or Title XX center only if at least 25 percent of its enrolled eligible participants are beneficiaries of one or the other types of funding. Title XIX and Title XX beneficiaries are individuals for whom a center receives the funds. Eligibility of the center must be established under one source. Once a proprietary center is determined eligible to participate, it can only claim reimbursement during months when at least 25 percent of its enrolled participants are Title XIX or Title XX beneficiaries. Meals cannot be claimed any month the level of Title XIX or Title XX enrolled participants falls below 25 percent.

3. Approved Sites

An approved site is one that is an *active tiering* site that serves at least one eligible meal to one eligible child during the claim month. The number of sites claimed cannot exceed the number of tiering sites approved by the NSD. New sites must be approved prior to being claimed for reimbursement. A Tier II family day care home is defined as one that does not meet the criteria as Tier I. Tier II day care homes that do not receive Tier I rates may still receive the Tier I rates for children enrolled in their care who are individually determined to be eligible for Tier I reimbursements. The provider will receive Tier I rates for meals served to children who have been determined to be eligible based on household income or receipt of categorically eligible benefits. There are four categories of tiering sites:

a. Tier I Site

A Tier I Site is a day care home, which is located in a low-income elementary school boundary area or census tract as specified by program regulations, or a home in which the provider's household income is at or below federal income eligibility guidelines. Households that receive Food Stamps, FDPIR, Head Start, or Even Start Benefits; or children who are recipients of CalWORKs benefits, are automatically eligible for Tier I.

b. Tier II High Site

A Tier II high site is a home located in a Tier II area, but all children qualify for the higher Tier I reimbursement rate.

CACFP REIMBURSEMENT CLAIMS REPORTING

422

c. Tier II Low Site

A Tier II low site is a home located in a Tier II area for which all children qualify for the lowest reimbursement rate. Each child in care is eligible for Tier II reimbursement.

d. Tier II Mixed Site

A Tier II mixed site is a home located in a Tier II area, which claims some children at the lowest reimbursement rate and some children at the highest reimbursement rate. Meal Benefit Forms (NSD 3103F) determine which children qualify at Tier I and which children qualify at Tier II reimbursement levels.

For more information on tiering methods, refer to CACFP Claim for Reimbursement Instructions located on the CDE Web site at <http://www.cde.ca.gov/fg/aa/nt/documents/cacfpdaycarewrksht.doc>.

4. Average Daily Participation

The average daily participation is a record of the number of children who consumed at least one meal or supplement each day from the daily attendance counts for each tiering site category. Total the daily attendance counts for the claim month and divide by the highest number of days that food was served.

B. Meals Served

If adjustments are made to meal data, a finding must be reflected on the *Schedule of Findings and Questioned Costs*. If the monetary effect of the adjustment exceeds \$600, then it must be reported on the Claim for Reimbursement, according to the 2004 USDA Implementation memorandum CACFP 4 (reauthorized), effective October 1, 2004. Additional reporting information is provided, below, for the three types of sponsors.

1. All CACFP Sponsors (Excluding Day Care Homes)

The CACFP center sponsors have the option of claiming reimbursement for meals served using the fixed percentage method or the actual count method (see Section 422.A for method descriptions). For sponsors using the actual count method, meals served must be reported for each eligibility category (free, reduced-price, and base). For sponsors using the fixed claiming percentage, meals served must be reported by meal type. The eligibility percentage established during the base month will be used. Monthly claim reporting forms

CACFP REIMBURSEMENT CLAIMS REPORTING

and calculation worksheets are located on the CDE Web site at <http://www.cde.ca.gov/fg/aa/nt/cacfp.asp>.

2. Day Care Homes Sponsors

Day care home sponsors report each month to the NSD the total number of meals actually served by meal type (breakfasts, lunches, suppers, and supplements). Monthly claim reporting forms and calculation worksheets are located on the CDE Web site at <http://www.cde.ca.gov/fg/aa/nt/cacfp.asp>.

3. Sponsor of Independent Centers

Sponsors of independent centers (SOIC) must report each month the total numbers of meals served using the actual count method. Meals served must be reported for each eligibility category (free, reduced-price, and base). Monthly claim reporting forms and calculation worksheets are located on the Web site at <http://www.cde.ca.gov/fg/aa/nt/cacfp.asp>.

C. State Meal Reimbursement

1. All CACFP Sponsors (Excluding Day Care Homes, Independent Centers and Outside School Hour Centers)

Child Care Centers earn 100 percent of reimbursement on the total number of free and reduced-price breakfasts and lunches claimed for reimbursement. Calculation worksheets are located on the CDE Web site at <http://www.cde.ca.gov/fg/aa/nt/cacfp.asp>.

Auditors must include the *Summary of Claim and the Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement* (using the state meal reimbursement rate). See Appendix B.

2. Day Care Homes Sponsors

Day Care Homes earn 75 percent of reimbursement on the total number of breakfasts and lunches for all tiers claimed for reimbursement. Sponsors may retain no more than 30 percent of the allowed state meal compensation from the day care homes for allowable administrative expenses. Calculation worksheets are located on the Web site at <http://www.cde.ca.gov/fg/aa/nt/cacfp.asp>.

Auditors must include the *Summary of Claim and the Schedule of Reported, Adjusted, and Allowed Meals, Sites and Earned Reimbursement* (using the state meal reimbursement rate). See Appendix C and the Web site at <http://www.cde.ca.gov/ls/nu/rs/> for state meal reimbursement rates. If sponsors

CACFP REIMBURSEMENT CLAIMS REPORTING

422

retain a percentage of the allowed meal compensation for administrative expenses, then the *Schedule of Reported, Adjusted, and Allowed Administrative Income*; and the *Schedule of Reported, Adjusted, and Allowed Administrative Cost* must be included in the audit report.

3. Sponsor of Independent Centers

SOICs earn 100 percent of reimbursement on the total number of free and reduced-price breakfasts and lunches claimed for reimbursement. SOICs are allowed to retain up to 30 percent of the **state** meal reimbursements and up to 15 percent of the **federal** meal reimbursements for administrative expenses. The agreed upon amount must be included in the sponsor site agreement.

Calculation worksheets are located on the CDE Web site at

<http://www.cde.ca.gov/fg/aa/nt/cacfp.asp>.

Auditors must include the Summary of Claim and the *Schedule of Reported, Adjusted and Allowed Meals and Earned Reimbursement*, using the Cash-in Lieu reimbursement rate (Appendix D). If sponsors retain a percentage of the allowed meal compensation for administrative expenses, then the *Schedule of Allowed Administrative Costs* must be included in the audit report.

D. Disallowed Meals

Reimbursement received for meals disallowed during an audit shall be returned to the NSD. The amount of funds owed to the CDE (meal reimbursement retained for administrative costs and the meal reimbursement distributed to centers) must be identified in the audit report.

The types of meals that the auditor should disallow include:

1. All Child and Adult Care Food Program Sponsors (Except Day Care Homes and Independent Centers)
 - Meals served to any participant who is not enrolled for care in the center
 - Meals served in excess of the center's licensed or authorized capacity
 - Meals served in centers not approved by the NSD
 - Meals served that exceed the number of allowed meals claimed daily for each enrolled participant
 - Meals that do not meet the meal pattern requirements

CACFP REIMBURSEMENT CLAIMS REPORTING

422

2. Day Care Homes Sponsors

- Meals served to any child who is not enrolled for care in the home
- Meals served in excess of the home's licensed or authorized capacity
- Meals served at sites not approved by the NSD
- Meal types not approved in the home's agreement with the sponsoring organization
- Meals served that are in excess of the two meals and a snack (or one meal and two snacks) claimed daily for each enrolled child
- Meals that do not meet the meal pattern requirements
- Meals served to the provider's own children unless they have been determined to be income eligible
- Meals served to the provider's own children when no other enrolled children are participating

3. Sponsor of Independent Centers

- Meals served to any participant who is not enrolled for care in the center
- Meals served in excess of the center's licensed or authorized capacity
- Meals served in centers not approved by the NSD
- Meals served that exceed the number of allowed meals claimed daily for each enrolled participant
- Meals that do not meet the meal pattern requirements

E. Program Income

Only day care homes and independent centers must report program income. Center sponsors do not receive funds for administrative expenses and are not required to report other program income.

1. Day Care Homes

The following types of funds are considered program income and must be used to offset actual allowable administrative expenditures (do not include program reimbursement retained for administrative expenditures):

- a. State meal reimbursement retained for administrative costs
- b. Other income restricted for use in the program
- c. Interest earned on CACFP funds

CACFP REIMBURSEMENT CLAIMS REPORTING

422

2. Independent Centers

Actual allowable administrative expenditures shall be offset by funds received by the sponsor of independent centers for use in the food service program, including:

- a. All monies, other than reimbursement, received from the state agency and retained by the centers for administrative expenditures
- b. Income from any food sales to adults
- c. Other income, including cash donations and grants from organizations or individuals

F. Administrative Funds and Costs

Only day care homes and independent centers must report program income. Center sponsors do not receive funds for administrative expenses.

1. Day Care Homes

A sponsor, as part of the annual renewal process, must submit an administrative budget to reflect anticipated needs for the coming fiscal year. The budget is a working document that may be revised during the year, but not on a retroactive basis. However, all revisions must be approved by the CDE. Sponsors may claim reimbursement for administrative costs, as long as these costs have been included in the sponsoring organizations budget, have been approved by the CDE, and are allowable costs as defined in the federal cost principles.

There are certain administrative cost reimbursement limitations. Sponsors are prohibited from charging the day care homes a fee for program administrative services. During any fiscal year, reimbursement for administrative costs is limited to the lesser of (1) actual expenditures for the costs of administering the CACFP, less income to the program; (2) the amount of administrative costs approved by the CDE in the sponsor's budget; or (3) the sum of the products obtained by multiplying each month times the applicable rate (see rates at Web site <http://www.cde.ca.gov/ls/nu/cc/iarates0910.asp>), times the number of active homes (an active home is an approved day care home that served at least one eligible meal to one eligible child during the claim month). Also, the administrative payments to a sponsor may not exceed 30 percent of the total amount of administrative payments and food service payments for day care home operations.

CACFP REIMBURSEMENT CLAIMS REPORTING

422

2. Independent Centers

SOICs must submit to the NSD for approval an annual administrative budget. An annual administrative budget is approved for the federal fiscal year, October 1 to September 30; so, auditors auditing fiscal years other than the federal fiscal year, must use two administrative budgets.

The SOIC may retain a portion of each center's total eligible food service reimbursement (30 percent of **state** and 15 percent of **federal** funds) to offset costs incurred in planning, organizing, and managing the CACFP. However, the NSD limits the amount of state and federal funds an agency may retain for its program administrative services.

Reimbursement retained from a center in excess of the limitations and/or disallowed administrative costs shall be returned to the center(s). Any reimbursement received for additional meals identified during an audit shall be disbursed to the applicable center(s) only.

a. Administrative Cost Reimbursement Limitations

The SOICs are prohibited from charging their sponsored centers a fee for program administrative services. During any fiscal year, administrative cost payments to a SOIC may not exceed the lesser of (1) actual expenditures for the costs of administering CCFP, less income to the program; (2) the amount of administrative costs approved by the state agency in the SOIC's budget; or (3) no more than 15 percent of each site's eligible **federal** meal reimbursements (excluding cash-in-lieu) and no more than 30 percent of each site's **state** meal reimbursements for allowable administrative costs.

b. Underpayments Attributed to Computational Errors and/or Rounding

(1) If the audit report reveals that the sponsor used the incorrect rate to compute its center's reimbursement, then the auditor shall calculate the correct amount for reimbursement. If the finding is material (more than \$600), the sponsor should be instructed to pay any differences to the affected centers.

If the auditor cannot trace all or part of the material underpayment to a particular center, the sponsor shall pay equal shares of the owed money to all current centers. If a center terminated its agreement with the sponsor and cannot be located, the sponsor shall follow the procedures discussed in the prior paragraph if the center was affected by the sponsor's miscalculations.

CACFP REIMBURSEMENT CLAIMS REPORTING

422

If a center was affected by the sponsor’s miscalculations, and terminated its agreement with the sponsor and cannot be located, the sponsor shall follow the procedures discussed in the previous paragraph.

- (2) The SOIC shall annually reconcile payments actually disbursed to individual centers with funds paid by the state agency. The SOIC must correct any rounding variances by adjusting the year-end checks issued to each center (or the final check issued, in the case of a terminating center).

If the sponsor cannot link the difference to a specific center, the difference should be prorated equally among all current centers. If a center was affected by the sponsor’s rounding procedures, or has terminated its agreement with the sponsor and cannot be located, the sponsor shall follow the procedures discussed in the previous paragraph.

G. Administrative Advances for Day Care Homes

The CDE offers administrative advances to family day care home sponsors. The procedures for reporting and cancelling advances are listed in the *CACFP Claim for Reimbursement Instructions* located on the CDE Web site at <http://www.cde.ca.gov/fg/aa/nt/documents/cashadvinst1109.doc>.

The administrative advance is calculated on the basis of the estimated administrative reimbursement of “rates times homes”. An administrative advance can only be used for CACFP administrative expenditures and must be deposited into an interest-bearing account. Interest earned on the funds is income to the sponsor and must be reported on the claim for reimbursement and spent on allowable administrative costs.

Both the earned interest and the cash advance must be clearly identified in the sponsor’s accounting records. The cash advance must be reported in the audit report either as a separate liability line item in the Statement of Financial Position or identified as an advance in the notes to the financial statements. The advance should be reported as a current liability since the sponsor must repay the advance if the agency terminates the Agreement to Participate, chooses to discontinue the advance, or on demand by the USDA or the CDE.

CACFP REQUIRED AUDIT REPORT SCHEDULES

424

The schedules listed below are required for all program-specific audits of the CACFP. The schedules are required on *Single Audits* and for-profit audits only when there are (1) CACFP findings, (2) over/underpayments, and/or (3) audit cost reimbursement requests.

CACFP REQUIRED AUDIT REPORT SCHEDULES

424

A. CACFP Centers (Example at Appendix B)

1. Summary of Claim
2. Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement
3. Schedule of Reported, Adjusted, and Allowed Eligibility
4. Schedule of Reported, Adjusted, and Allowed Meals

B. CACFP Day Care Homes Sponsors (Example at Appendix C)

1. Summary of Claim
2. Schedule of Reported, Adjusted, and Allowed Meals, Sites and Earned Reimbursement
3. Schedule of Reported, Adjusted, and Allowed Meals and Homes
4. Determination of Allowable Administrative Reimbursement
5. Schedule of Reported, Adjusted, and Allowed Administrative Income
6. Schedule of Reported, Adjusted, and Allowed Administrative Cost
7. Determination of Budget Deficit (Adjustments)
8. Determination of Allowed Provider Payments

Note: On *Single Audits* and for-profit audits, items 3 through 8 are required only on programs selected for testing by the auditor.

C. CACFP Sponsor of Independent Centers (Example at Appendix D)

1. Summary of Claim
2. Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement
3. Schedule of Reported, Adjusted, and Allowed Meals
4. Schedule of Reported, Adjusted, and Allowed Eligibility
5. Reconciliation of Allowable Administrative Costs
6. Schedule of Allowed Administrative Costs
7. Schedule of Allowed Funds Retained

Note: On *Single Audits* and for-profit audits, items 3 through 7 are required only on programs selected for testing by the auditor.

CACFP AUDIT COST REIMBURSEMENT

426

Reimbursement Requirements

Audit cost reimbursement is available only under the CACFP and only when the CACFP sponsor meets the requirements specified as follows.

- A. Reimbursement for a portion of the costs associated with the audit of a CACFP sponsor may be available from the CDE, depending on the amount of funds

CACFP AUDIT COST REIMBURSEMENT

426

available to the CDE. However, reimbursement will be allowed only if the sponsor provides a *Single Audit* in accordance with the *CDE Audit Guide* and the OMB Compliance Supplement, Part 4-10.588. Thus, the auditor must have tested the CACFP funds and presented the following schedules in the audit for which audit cost reimbursement is being requested:

1. Summary of Claim
2. Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement
3. Schedule of Reported, Adjusted, and Allowed Eligibility
4. Schedule of Reported, Adjusted, and Allowed Meals

B. To request audit cost reimbursement, the sponsor must submit a letter and supporting information to:

California Department of Education
Audits & Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814

C. To support audit cost reimbursement, the sponsor must:

1. Ensure that audit costs were approved in the sponsor's budget (if day care home).
2. Pay the invoice for the audit and account for the audit costs as a regular administrative cost in the period incurred.
3. Submit to the CDE a copy of:
 - a. The applicable audit engagement letter
 - b. Cancelled checks totaling the amount of audit cost
 - c. Auditor's itemized invoice, listing the audit cost for each fund audited
4. Accrue (debit) an account receivable for the expected audit cost reimbursement with an offsetting credit to administrative income. Currently, a sponsor must include this amount in the Claim for Reimbursement under Line 12, Administrative Income.
5. Debit cash and credit the account receivable for the audit cost reimbursement when the funds are received from the CDE.

It should be noted that reimbursement for an audit will not be made until the A&I notifies the NSD Director that the audit complies with applicable federal and CDE requirements.

CACFP AUDIT COST REIMBURSEMENT

426

In addition, there will be no reimbursement for audit costs until any outstanding child nutrition accounts receivable to the CDE have been paid. Reimbursement shall not exceed that portion of the audit’s cost equal to the CACFP portion of total federal funds.

Maximum Amount of Reimbursement

For sponsors requiring a *Single Audit*, the maximum amount of reimbursement shall be calculated as follows:

$$\frac{\text{CACFP Portion of Federal Financial Assistance}}{\text{Total Federal Financial Assistance}} \times \text{Federal Audit Cost}$$

For sponsors submitting a program specific audit, the maximum amount of reimbursement shall be calculated as follows:

$$\frac{\text{CACFP Funds}}{\text{CACFP Funds – Federal and State}} \times \text{Federal Audit Cost}$$

Audit Cost Exemption

The cost of a *Single Audit* is not allowable if the auditee is exempt from OMB Circular A-133 audit requirements under 7 CFR 3052.200 (d). In addition, nonfederal entities that expend less than \$500,000 in a fiscal year have no *Single Audit* requirement and may not charge the cost of any audit to its federal awards or claim reimbursement for CACFP audit costs.

SCHOOL NUTRITION PROGRAMS (SNP)

430

Three programs fall under the category of school nutrition:

1. School Breakfast Program – This is a federally funded program which assists schools and other agencies in providing nutritious breakfasts to children at reasonable prices.
2. National School Lunch Program – This is a federally funded program that assists schools and other agencies in providing nutritious lunches to children at reasonable prices. In addition to financial assistance, the program provides donated commodity foods to help reduce lunch program costs.
3. Special Milk Program for Children – This is a federally funded program which assists schools and other agencies in providing milk to children at reasonable prices.

SNP REIMBURSEMENT CLAIMS REPORTING 432

The SNP sponsors are to use the "Actual Count" claiming method which requires the sponsor to accurately report the eligibility categories of enrolled, participating children and the "actual count" of the number of meals served to children at the point of service, in each eligibility category, as a basis for monthly reimbursement claims. For further details, refer to the SNP Claiming Types and Instructions located on the CDE Web site at <http://www.cde.ca.gov/fg/aa/nt/snp.asp> and the School Nutrition Programs Reimbursement Instructions Booklet located on the Web site at <http://www.cde.ca.gov/fg/aa/nt/documents/snpinstru1109.doc>.

SNP REQUIRED AUDIT REPORT SCHEDULES 434

Sponsor of School Food Authority (Example at Appendix E)

1. Summary of Claim
2. Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement
3. Schedule of Reported, Adjusted, and Allowed Eligibility

SUMMER FOOD SERVICE PROGRAM (SFSP) 440

The SFSP for Children provides free meals and snacks to children in needy areas during the summer months.

SFSP REIMBURSEMENT CLAIMS REPORTING 442

The SFSP sponsors are to use the "Actual Count" claiming method which requires the sponsor to accurately report the eligibility categories of enrolled, participating children and the "actual count" of the number of meals served to children at the point of service, in each eligibility category, as a basis for monthly reimbursement claims.

SFSP REQUIRED AUDIT REPORT SCHEDULES 444

Sponsor of Summer Food Service Programs

1. Summary of Claim
2. Schedule of Meals Served and Cost of Meal Service
3. Statement of Budgeted and Actual Administrative Expenses
4. Calculation of Maximum Allowable Administrative Costs
5. Schedule of State Disallowance Notices

For reporting questions regarding the SFSP, contact the CDE, Audits and Investigations Division (see Subsection 426.B for address).

CHAPTER 500

REPORTING ADULT EDUCATION PROGRAMS

Chapter 500 – Reporting Adult Education Programs

TABLE OF CONTENTS

	<u>Section</u>
Adult Education Programs Subject to Audit.....	505
Audit Reporting and Administration.....	510
Auditing Compliance.....	515

ADULT EDUCATION PROGRAMS SUBJECT TO AUDIT**505**

The Adult Education (AE) programs serve state and national interests by providing life-long educational opportunities and support services to all adults. The AE programs address the unique and evolving needs of individuals and communities by providing adults with the knowledge and skills necessary to participate effectively as productive citizens, workers, and family members.

The federal Adult Education and Family Literacy Act, enacted as Title II of the Workforce Investment Act (CFDA No. 84.002), provides funding to supplement adult education programs in both public and private non-profit institutions. The goal of this program is to enable adults to become more employable, productive, and responsible citizens through literacy.

- Adult Basic Education (ABE). These are classes below the high school level where the primary objective is teaching basic literacy skills.
- English as a Second Language (ESL). This program of instruction is designed to help individuals of limited English proficiency achieve competence in the English language.
- Vocational Literacy (VESL or VABE). These programs are designed to increase the productivity of the workforce through improved workplace English literacy skills.
- ESL-Citizenship. This literacy curriculum is designed to use ESL as a method and citizenship as the content.
- Adult Secondary Education (ASE) or General Education Development (GED). Adult secondary subjects consist of courses in mathematics, reading, history, science, government, language arts, and other courses leading to a high school diploma.
- Family Literacy (ABE or ESL). Family Literacy programs provide services of sufficient intensity and duration to promote sustainable changes in a family and integrate interactive literacy activities between parents and their children.
- English Language and Civics Education (EL Civics) – Citizenship Preparation Education. This program's focus is on literacy skills and uses ESL methodologies and citizenship preparation material to prepare learners to take and pass the United States Citizenship and Immigration Services tests.
- EL Civics – Civic Participation. This program supports the design, creation, implementation, and delivery of instructional activities that either integrate civics education content with existing ESL programs or are stand-alone civic participation programs.

For additional resources, see the Web site at: <http://www.cde.ca.gov/sp/ae/>.

AUDIT REPORTING AND ADMINISTRATION

510

AE entities and subcontractors that receive and expend federal funding of \$500,000 or more during a fiscal year must meet the *Single Audit* requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

Otherwise, this audit guide applies to Adult Education programs only when they are included in an audit of CD programs. No additional supplementary audit information is required for AE programs. General reporting requirements are addressed in Chapter 200.

AUDITING COMPLIANCE

515

Guidance on auditing compliance, including examples of audit procedures and related deficiencies that have surfaced in previous audits, is provided in Chapter 700.

CHAPTER 600

REPORTING NO CHILD LEFT BEHIND PROGRAMS

Chapter 600 – Reporting No Child Left Behind Programs

TABLE OF CONTENTS

	<u>Section</u>
No Child Left Behind (NCLB) Programs Subject to Audit.....	605
Even Start Family Literacy.....	610
21st Century Community Learning Centers.....	615
Audit Reporting and Administration.....	620
Auditing Compliance.....	625

NO CHILD LEFT BEHIND (NCLB) PROGRAMS SUBJECT TO AUDIT

605

The federal NCLB Act of 2001, Public Law 107-110 reauthorized and amended federal education programs that were established under the Elementary and Secondary Education Act of 1965 (ESEA). The NCLB includes multiple federal programs aiming to improve the performance of primary and secondary schools by increasing the standards of accountability for states, school districts and schools, as well as providing parents more flexibility in choosing which schools their children will attend.

This audit guide addresses the following two NCLB programs, but only when included in an audit of CD programs:

1. William F. Goodling Even Start Family Literacy Program, CFDA Number 84.213
2. 21st Century Community Learning Centers Program, CFDA Number 84.287

EVEN START FAMILY LITERACY

610

The purpose of the Even Start Family Literacy Program (Even Start) is to break the cycle of poverty and illiteracy in low-income and high-need families by providing an intensive program of adult education, early childhood education, school readiness, parenting education, and parent and child interactive literacy activities.

Even Start was first authorized in 1989 as Part B, Chapter 1, Title I, ESEA. Even Start legislation was amended in July 1991 when Congress passed the National Literacy Act (Public Law 102-73), lowering the age of children served from age one to birth and allowing community-based organizations to receive grants. The Literacy Involves Families Together Act of 2000 renamed Even Start to the William F. Goodling Even Start Family Literacy Program. It was reauthorized as Title I, Part B, Subpart 3, of the NCLB Act of 2001. For additional information and resources, see the Web site at <http://www.cde.ca.gov/sp/cd/op/evenstart.asp>.

21st CENTURY COMMUNITY LEARNING CENTERS

615

The purpose of the 21st Century Community Learning Centers (21st Century) Program is to provide five-year grant funding to establish or expand before-and after-school programs in community learning centers that provide disadvantaged K-12 students (particularly students who attend schools in need of improvement) with academic enrichment opportunities and supportive services to help the students meet state and local standards in core content areas. For additional information and resources, see the Web site at <http://www.cde.ca.gov/ls/ba/cp>.

AUDIT REPORTING AND ADMINISTRATION

620

Because this audit guide applies to NCLB programs only when they are included in an audit of CD programs, the applicable reporting requirements are addressed with the general reporting and administration requirements in Chapter 200. No additional supplementary audit information is required for NCLB programs.

AUDITING COMPLIANCE

625

Guidance on auditing compliance, including examples of audit procedures and related deficiencies that have surfaced in previous audits, is provided in Chapter 700.

CHAPTER 700

AUDITING COMPLIANCE WITH PROGRAM REQUIREMENTS

TABLE OF CONTENTS

	<u>Section</u>
INTRODUCTION	
Programs Subject to Compliance Auditing Procedures.....	702
Identification of Federal Programs.....	704
Cost Principles.....	706
Materiality and Extent of Compliance Testing.....	708
Compliance Areas.....	710
Compliance Audit Procedures.....	712
GENERAL AUDIT REQUIREMENTS	
Internal Controls.....	714
Grants Management.....	716
Cost Allocation.....	718
Reporting Internal Control and Compliance Deficiencies.....	720
SPECIFIC AUDIT REQUIREMENTS	
Child Care and Development Programs.....	730
Nutrition Programs.....	740
Child Care Centers.....	742
Day Care Homes.....	744
School Nutrition Program.....	746
Summer Food Service Program for Children.....	748
Adult Education Programs.....	750
(Continued)	

TABLE OF CONTENTS

SPECIFIC AUDIT REQUIREMENTS (Continued)

No Child Left Behind Programs.....	760
Even Start.....	762
21 st Century Community Learning Centers.....	764
<u>Exhibits at End of Chapter:</u>	
Quick Reference Guide.....	Exhibit A
Cost Allocation Guidance.....	Exhibit B

INTRODUCTION

The programs identified below are funded by or through the CDE. These programs are subject to audit, as authorized by the laws and regulations cited in Section 120. The following audit procedures are presented to help the auditor assess the organization's compliance with program requirements. See Exhibit A, entitled *Quick Reference Guide* for Web links to applicable laws, regulations, programs, and standards.

PROGRAMS SUBJECT TO COMPLIANCE AUDITING PROCEDURES **702**

The CDE programs that are subject to compliance auditing procedures include the CD, Nutrition, AE, and NCLB programs.

A. Child Care and Development Programs

The major CD programs that are subject to compliance auditing procedures are described on the CDE Web site at <http://www.cde.ca.gov/sp/cd/op/cdprograms.asp>. Primary CD program types are:

1. Center-based. Examples include general child care centers, state preschool, and migrant program
2. Alternative payment child care and CalWORKs child care (Stages 2 and 3)
3. Resource and referral
4. Quality (Support) contracts

CD contracts are funded through a combination of state and federal funds. Funding sources are identified on each contract's face sheet and on the remittance advice that accompanies each check for an advance (apportionment) or final reimbursement. The federal and state funds are identified by program cost accounting (PCA) code (a number with five digits). The code number beginning with "1" is for federal funds, and the code number beginning with "2" is for state funds.

B. Nutrition Programs

The primary nutrition programs subject to audit are described on the CDE Web site at <http://www.cde.ca.gov/ls/nu/>.

C. Adult Education Programs

The AE programs subject to audit are described on the CDE Web site at <http://www.cde.ca.gov/sp/ae/>.

PROGRAMS SUBJECT TO COMPLIANCE AUDITING PROCEDURES **702**

D. No Child Left Behind Programs

The two NCLB programs subject to audit are described at the following CDE Web sites.

1. Even Start Family Literacy: <http://www.cde.ca.gov/sp/cd/op/evenstart.asp>.
2. 21st Century Community Learning Centers: <http://www.cde.ca.gov/ls/ba/cp/>.

IDENTIFICATION OF FEDERAL PROGRAMS **704**

Where a *Single Audit* is required, the federal government expects the auditor to consider the compliance requirements and suggested audit objectives and procedures outlined in the OMB Circular A-133 Compliance Supplement. The compliance requirements for the federal programs administered by the CDE are identified in the OMB Compliance Supplement in Part 2 – Matrix of Compliance Requirements. These programs and their CFDA numbers are listed below. CFDA numbers for applicable federal programs must be included in the *Schedule of Federal Award Expenditures and State Funds Received* (see Appendix A).

A. Child Development

1. Child Care and Development Block Grant – CFDA 93.575
2. Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596

B. Nutrition

1. Food Donation (Commodities) – CFDA 10.550
2. School Breakfast Program – CFDA 10.553
3. National School Lunch Program – CFDA 10.555
4. Special Milk Program – CFDA 10.556
5. Child and Adult Care Food Program – CFDA 10.558
6. Summer Food Service Program for Children – CFDA 10.559

C. Adult Education

State Grant Program – CFDA 84.002

D. No Child Left Behind

1. Even Start – State Educational Agencies – CFDA 84.213
2. Twenty-First Century Community Learning Centers – CFDA 84.287

COST PRINCIPLES **706**

The following cost accounting principles establish guidelines for determining allowable costs applicable to federal and state grants, contracts, and other agreements (Title 34, CFR, Part 74.27 and Title 34, CFR, Part 80.22).

COST PRINCIPLES**706****A. Federal Cost Principles that Organizations Must Apply**

1. *OMB Circular A-21*, Cost Principles for Educational Institutions (even if part of a state or local government)
2. *OMB Circular A-87*, Costs Principles for State, Local and Indian Tribal Governments
3. *OMB Circular A-122*, Cost Principles for Non-Profit Organizations
4. Title 45, CFR Part 74.27, Appendix E, Hospitals
5. Title 48, CFR Part 31, Contracts with Commercial Organizations, Commercial For-Profit Organizations other than Hospitals and Educational Institutions

B. State Child Care and Development Cost Principles that Organizations Must Apply

CDE's CD programs are governed by applicable provisions of the *EC*, and the Title 5, CCR, Division 1, Chapter 19. Each state (and federal pass-through) CD program is administered through a contract between the CDE and an organization, which incorporates contract *FT&C*. The *FT&C* for the various contracts are updated annually on the CDE Web site at <http://www.cde.ca.gov/fg/aa/cd/index.asp>.

The *FT&C*, Section V, describes reimbursable and nonreimbursable costs. Also, Section VI states that contractors shall report expenditures on an accrual basis and follow the applicable procedures specified in the most recent edition of the *California School Accounting Manual (CSAM)*. The CSAM is located on the CDE Web site at <http://www.cde.ca.gov/fg/ac/sa/index.asp>. Applicable CSAM Procedures include:

- Section 300 – Chart of Accounts, Procedure 330 – Object Classification defines the expenditure classification codes 1000-6500 that are used when reporting expenditures on CDE forms.
- Section 900 – Cost Accounting offers cost accounting guidance and incorporates certain OMB cost principles in Procedures 905, Documenting Salaries and Wages; 910, Direct-Charged Versus Allocated Costs; and 915, Indirect Cost Rate.

Thus, the *CDE Audit Guide* incorporates the OMB cost principles and considers them to be applicable to costs incurred under (1) state programs, subject to any specific state restrictions; and (2) federal programs, where the federal funds are passed through the CDE. These federal programs include any federal component of CD contracts; and the nutrition, AE, and NCLB programs. The cost principles primarily apply to the audit

COST PRINCIPLES

706

procedures in Section 718 on Cost Allocation and to the *Specific Audit Requirements*, addressed in sections 730 through 764.

MATERIALITY AND EXTENT OF COMPLIANCE TESTING

708

The level of materiality for determining compliance with CDE requirements differs from the materiality level for auditing financial statements. For CD programs, Nutrition programs, and AE programs, the auditor is required to report program noncompliance that (1) results in disallowances totaling more than \$600 per program; or (2) adversely affects program performance, such as unqualified staff, inadequate records, and unspent funds.

Section 5.12 of *GAS* indicates that in assessing control deficiencies that violate CDE contract provisions (e.g., non-reimbursable costs in CD programs, such as amusement and entertainment), the auditor should consider qualitative factors such as public accountability of the audited entity, the visibility and sensitivity of the entity or program, the needs of users and concerns of CDE and federal officials.

Likewise, the OMB Circular A-133 Compliance Supplement, Part 7, Page 7-4, indicates that in assessing materiality, the auditor should (1) bear in mind that materiality is based on qualitative as well as quantitative aspects; and (2) consider whether to set materiality at lower levels in audits of federal programs than private sector audits of financial statement due to the visibility and sensitivity of such programs. Examples of characteristics indicative of compliance requirements that could have a direct and material effect on a major program include:

- Noncompliance could likely result in questioned costs
- The compliance requirement affects a large part of a federal program (e.g., a material amount of program dollars)
- Noncompliance could cause the CDE to take action, such as seeking reimbursement of all or part of an award and suspending an organization's participation in the program

When a contractor engages its independent auditor, the engagement letter should address the extent of compliance testing that will be performed (Sections 160.C and D). Compliance testing should determine whether the organization has complied substantially with CDE's *FT&C* for CD programs, and other state and federal requirements associated with carrying out CDE programs.

COMPLIANCE AREAS

710

The compliance areas addressed in this chapter are based on the requirements of CDE programs and the OMB Circular A-133 Compliance Supplement. The OMB Circular A-133 Compliance Supplement is updated annually on the OMB Web site at <http://www.whitehouse.gov/omb/circulars>. Each of the following compliance areas, unless otherwise indicated, is applicable in audits of CDE programs:

- **Activities and Costs.** The specific requirements for activities allowed or unallowed are unique to each program, as identified in program rules and regulations and the provisions of contracts, grants, or other agreements. Costs are addressed in the cost principles covering federal programs, as identified in applicable OMB Circulars and federal regulations listed in Section 706, and in the contract *FT&C*.
- **Cash Management.** Addresses how an organization administers and safeguards cash received from the CDE to operate its programs.
- **Eligibility.** Determines whether an organization ensures that only eligible individuals receive appropriate assistance under the programs.
- **Equipment.** Ascertains whether the organization adequately accounts for, safeguards, maintains, inventories, and properly disposes of equipment acquired with program funds.
- **Matching.** Certain programs may require an organization to make cash or in-kind contributions (matching or maintenance-of-effort) from funding sources other than the program. The audit would determine whether contributions were valued correctly and otherwise met applicable requirements.
- **Procurement.** Deals with whether goods and services were acquired using appropriate procedures and in a manner that promoted open and free competition.
- **Program Income.** Determines whether program income, such as family fees, was correctly earned (charged and collected), reported, and used in accordance with program requirements.
- **Reporting.** Focuses on whether reports submitted to the CDE include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.
- **Subcontract Monitoring.** Ensures that an organization adequately tracked a subcontractor's compliance with reporting and other requirements of the program and provisions of any subcontract agreement.

COMPLIANCE AUDIT PROCEDURES

712

The audit procedures in the OMB Circular A-133 Compliance Supplement were developed to assist auditors in examining compliance with federal program requirements. For conformity, these procedures, as applicable, shall apply to the state's child development programs, unless state audit requirements are more restrictive, in which case the state audit requirements must be followed.

- A. The audit procedures presented in this chapter consider the audit procedures contained in Parts 3 and 4 of the OMB Circular A-133 Compliance Supplement.
 - 1. Part 3 of the OMB Circular A-133 Compliance Supplement contains requirements that apply to the NCLB Even Start Program.
 - 2. Part 4 of the OMB Circular A-133 Compliance Supplement contains requirements applicable to:
 - a. The U.S. Department of Health & Human Services, including Child Care and Development Block Grant, and Child Care Mandatory and Matching Funds of the Child Care and Development Fund.
 - b. The U.S. Department of Education, including the AE Program and the NCLB 21st Century Community Learning Center Program.
 - c. The U. S. Department of Agriculture, including the CACFP, and other nutrition programs (except the commodities program).
- B. The compliance audit procedures contained in this audit guide are not intended to uncover all forms of noncompliance, so the auditor should apply additional appropriate procedures when determined necessary. Furthermore, the auditor should remain alert for occurrences of fraud (Section 260).
- C. The auditor should report noncompliance, inadequate internal controls, and questioned costs in the Internal Control Communication Letter, Management Letter, or Schedule of Findings and Questioned Costs, depending on the severity of the consequences of the noncompliance (Section 720).

GENERAL AUDIT REQUIREMENTS

General audit requirements are broad legal, regulatory, or contractual obligations that apply to overall program operations, as described below. These requirements apply to both contractor audits and *Single Audits*. The audit compliance areas for internal controls and cost allocation, presented below, contain audit objectives, audit procedures, and examples of common audit deficiencies.

INTERNAL CONTROLS

714

The following audit procedures for evaluating and testing the operating effectiveness of internal controls are based on Part 6 of the OMB Circular A-133 Compliance Supplement.

A. Audit Objective

Evaluate internal controls, identify risk areas, and assess the impact of risk areas on noncompliance.

B. Audit Procedures

1. Interview appropriate management officials familiar with the internal accounting and other management controls applicable to selected activities.
2. Based on information obtained from the interview and other survey work, determine the nature, timing, and extent of substantive testing, including the number of transactions to be tested for evaluating compliance.
3. Determine whether the organization adequately separated significant financial duties and responsibilities among staff.
4. Evaluate the organization's policy for signing checks.
5. Ascertain conflicts of interest in any transactions to which a child development contractor is a party and the other party has a financial interest in the contractor, as outlined in *FT&C*, Section II.Q.

C. Examples of Deficiencies

1. One employee received and deposited cash, prepared and posted transactions to the general ledger, and reconciled bank statements – all without supervisory oversight (Title 34, CFR, Part 80.20(b)(3)).
2. The CD organization did not have a policy regarding dual signatures on checks above a specified dollar amount; as a result, one employee signed all checks, regardless of amount (Title 5, *CCR*, Section 18018; and *FT&C*, Section II.D).

INTERNAL CONTROLS

714

3. The CD organization’s Board of Directors was not independent and did not provide effective oversight and leadership (*FT&C*, Section II.Q).

GRANTS MANAGEMENT

716

Grants management requirements overlay some of the requirements identified in the OMB Compliance Supplement. The grants management requirements for various federal entities administering CDE programs have been codified into the *CFR*, as follows:

U.S. Department	State and Local Governments¹	Universities and Nonprofit Organizations²
Agriculture – Nutrition Programs	7 <i>CFR</i> 3016	7 <i>CFR</i> 3019
Education – Adult Education and No Child Left Behind Programs	34 <i>CFR</i> 80	34 <i>CFR</i> 74
Health & Human Services – Child Care and Development Block Grant, and Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF)	These CCDF programs were excluded from the requirements of 45 <i>CFR</i> 92 per Appendix I of the OMB Compliance Supplement	45 <i>CFR</i> 74

For grants management standards, see Subpart C–Post-Award Requirements of the applicable *CFR* citations, noted above, which address:

1. Financial and Program Management
2. Property Standards and Equipment
3. Procurement Standards
4. Reports and Records Retention

Auditors should refer to applicable portions of the grants management standards when performing the audit procedures outlined in the Specific Audit Requirements section of this chapter.

¹ These are the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, based on former attachments to OMB Circular A-102.

² These are the Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Nonprofit Organizations, based on OMB Circular A-110.

COST ALLOCATION

718

A. Audit Objective

Determine whether the contractor's direct costs and indirect costs (if any) were assigned to state and federal CDE programs using allocation bases that accurately measured the benefits provided to each program. For general assistance and cost allocation resources, see Exhibit B, entitled *Cost Allocation Guidance*.

B. Cost Allocation Audit Procedures for Entities other than Local Governments

These audit procedures are based on the OMB Circular A-133 Compliance Supplement and Attachment A of the cost principles listed in Section 706.

1. Direct Costs

- a. Verify that the CD contractor maintains written documentation of the rationale used in determining direct and administrative costs for CD programs (*FT&C*, Section V.C).
- b. Determine whether direct costs are net of credits, refunds, insurance recoveries, and adjustments for uncashed checks.
- c. If the organization claimed indirect costs, verify that these indirect costs are not also claimed under direct costs, e.g., depreciation of equipment.
- d. Verify direct costs are actual costs supported by appropriate documentation, such as vendor invoices, canceled checks, and time and attendance records. Verify that they are charged to the correct accounts, for the appropriate amounts, and during the applicable period. (This audit procedure likely will be performed for specific programs under the *Specific Audit Requirements* section of this chapter.)
- e. Determine whether costs have been assigned to the correct cost objective or activity. (This audit procedure likely will be performed for specific programs under the *Specific Audit Requirements* section of this chapter.)

2. Indirect Costs

- a. Determine whether the grant or contract permits indirect costs (the Even Start Program, AE Program, and some CD contracts do not permit indirect costs).
- b. If a CD contractor claimed indirect costs, verify that the contractor has an indirect cost allocation plan on file and available for review, e.g., at the main accounting office of the contractor (*FT&C*, Section V.B). The plan should be

COST ALLOCATION**718**

- approved by the board of directors (not-for-profits), or other appropriate governing body (local governments).
- c. Review the organization's indirect cost allocation plan, or indirect cost rate proposal for reasonableness. For example, a not-for-profit organization should follow one of the three approved methods for calculating the indirect cost rate, using OMB Circular A-122, Attachment A, Section D:
 - 1) Simplified Allocation Method. This method is preferred when all major functions of the organization benefit from its indirect costs at approximately the same rate.
 - 2) Direct Allocation Method. This method is more appropriate when all joint costs are prorated using bases which accurately measure benefits provided to each program.
 - 3) Multiple Allocation Base Method. This method is used when costs benefit several of the organization's major functions in varying degrees (seldom used by agencies).
 - d. If the organization uses the Direct Allocation Method, test the data supporting the proposed allocation bases to determine whether data are complete, accurate, appropriate, and properly documented.
 - e. Determine whether the indirect cost rate was applied in accordance with the approved rate agreement, and to the proper base amounts.
 - f. Verify that the base used was accurate, included all direct costs (including unallowable costs, such as fund raising), and reflected the terms of the rate agreement.
 - g. Determine whether the indirect cost rate was within approved limits. For instance, in a CD program, the organization's indirect cost rate may not exceed eight percent times the sum of (1) the direct costs reported on fiscal reports in object codes 1000 through 5000, and (2) any provider payments (*FT&C*, Section V.B; and the "Greenbook" section on Reporting Expenses – Indirect Costs).

C. Cost Allocation Audit Procedures for Local Governments

Generally, the cost allocation audit procedures for local governments (see OMB Circular A-87) are similar to those for nonprofit organizations, described above. However, for local and Indian tribal governments, there are four, rather than three, approved methods to calculate the indirect cost rate:

COST ALLOCATION

718

1. Simplified Allocation Method
2. Multiple Allocation Base Method
3. Special Indirect Cost Rates Method
4. Cost Allocation Plans Method (infrequent)

Note: the auditor would not include audit procedure C.3., above, unless the government entity adopted the Cost Allocation Plans Method.

D. Examples of Deficiencies

The contractor:

1. Did not have time and attendance records for some staff and did not otherwise maintain written documentation of the rationale used in determining direct and administrative costs for CD programs. As a result, certain payroll costs were disallowed.
2. Did not have a written cost allocation plan on file as required and could not adequately document how indirect costs were determined. Thus, indirect costs were not allowed.
3. Had CDE and non-CDE programs, but allocated all indirect costs of the organization to CDE programs, thereby overstating costs claimed under CDE contracts.

REPORTING INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

720

Significant deficiencies and material weaknesses in internal control over compliance found during an audit should be identified in the audit report, giving consideration to the quantitative and qualitative factors addressed in Section 708, entitled Materiality and Extent of Compliance Testing.

For deficiencies found in child development programs (Section 730) that are identified as costs that are unreasonable, undocumented, or otherwise non-reimbursable in accordance with contract requirements, the auditor should report a finding and adjust (reduce) the reimbursable expense on the appropriate AUD form (Section 310.A). The auditor should enter the finding number in the comments section of the AUD form.

A. When writing audit findings on deficiencies, be sure to include all elements of a finding:

1. Program information – for example, the identification number and type of each affected contract, grant, or other agreement.

REPORTING INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES

720

2. Criteria – such as the applicable section of the *EC*, *CCR*, or *FT&C* referenced in this chapter and Exhibit A of this chapter.
3. Condition – facts that support the noncompliance or other problem.
4. Questioned Costs – quantify, when possible, the dollar amount of a non-reimbursable expenditure.
5. Effect and Context – Convey the significance of the problem and the scope of testing. Describe the work performed that resulted in the finding, such as the relation to the universe of costs or the number of cases examined. Examples:
 - a. Six of 120 items tested (five percent) were found to be out of compliance.
 - b. \$5,500 of non-reimbursable costs (specify type of costs) were claimed under the contract.
6. Cause – why the problem occurred, e.g., weak internal controls (specify).
7. Recommendation – suggest a practical solution to correct the problem's cause. If the deficiency is an isolated instance, suggest it be corrected, repaid, reclassified, etc. If the deficiency is systemic, suggest an improved control or procedure that would prevent recurrence of the deficiency.
8. Views of responsible officials and planned corrective action – obtain management's response to the finding and recommendation, and identify the steps management plans to take in resolving the problem by a specific date.

Additional guidance in developing findings is provided in sections 4.14 through 4.18 of *GAS*.

- B. *Single Audits* must follow the audit reporting requirements of the OMB Circular A-133, including sections .505 and .510 regarding reporting and audit findings. Also, see Section 206.C in Chapter 200 of this audit guide.
- C. Auditors should refer to the reporting standards for financial audits in Chapter 5 of *GAS* to help determine the types of deficiencies to be reported as audit report findings, or as comments in an Internal Control Communication and/or Management Letter.

SPECIFIC AUDIT REQUIREMENTS

Specific audit requirements are particular legal, regulatory, or contractual obligations that apply to one or more of four types of CDE programs:

1. Child Care and Development (Section 730)
2. Nutrition (Section 740)
3. Adult Education (Section 750)
4. No Child Left Behind (Section 760)

The specific audit requirements apply to both contractor and *Single Audits*. The audit objectives and procedures are organized by compliance area (Section 710).

CHILD CARE AND DEVELOPMENT PROGRAMS

730

The procedures for auditing compliance with CD program requirements focus on the programs addressed by the Child Care and Development Services Act (*EC*, Part 6, Chapter 2). The Act provides a comprehensive, coordinated, and cost-effective system of child care and development services for children to age 13 and their parents, including a full range of supervision, health, and support services through full- and part-time programs. Organizations, called contractors, administer the CD programs under one or more contracts with the CDE. Operation of CD programs by contractors is governed by the Act, described above, and the following regulations and guidelines:

- *Title 5, CCR*, Chapter 19, Section 18000 et seq.
- Applicable Contract *FT&C*
- *CSAM*
- OMB Circulars (Cost Principles)

For additional CD program information and general audit reporting requirements, see Chapter 300.

The audit compliance areas, presented below, contain audit objectives, audit procedures, and examples of common audit deficiencies.

A. Child Care and Development Activities and Costs

1. Audit Objective

Determine whether state and federal funds were expended only for allowable activities and costs.

2. Audit Procedures

- a. Determine whether payroll costs were adequately supported and properly documented. Employees who were multi-funded on a time accounting basis

CHILD CARE AND DEVELOPMENT PROGRAMS**730**

must maintain employee time sheets to indicate the actual amount of time spent in each program per day (*FT&C*, Section VI.E).

- b. Verify that the activity or cost was reasonable and necessary to the performance of the contract, properly authorized, allowable under program guidelines, and supported by appropriate documentation, such as invoices, canceled checks, and written authorizations (*FT&C*, sections VI.A and VI.E).
 - c. Verify that the cost was charged to the appropriate time period (*FT&C*, Section V.H).
 - d. Determine whether a contractor's direct costs and any indirect costs (if permitted) were assigned to programs using allocation bases that accurately measured the benefits provided to each program, such as hours worked for payroll, square footage for rents, or direct hours charged for audit fees (*CSAM*, Procedures 910 and 915; *FT&C*, Section V.B; and *CDE Audit Guide* Section 718, entitled *Cost Allocation*).
 - e. On center-based, full-year CD programs ensure that rent was not claimed for idle facilities (*FT&C*, Section V.G.5).
 - f. Verify that depreciation expense was not claimed on depreciable facilities and equipment that were (a) purchased with CDE or other public funds, (b) donated, or (c) considered to be idle or excess facilities (*FT&C*, Section III.A).
 - g. If a contractor is claiming an expense for a building owned by the contractor, ensure that the expense is only for depreciation or use allowance (not rent) (*FT&C*, Section II.Q).
 - h. Verify that administrative costs do not exceed 15 percent of program funding; i.e., that 85 percent of the funds are used to provide direct services (*EC*, Section 8276.7).
3. Examples of Deficiencies
- a. The contractor did not require employees to maintain required time sheets to document time worked on its child development contracts and other programs. Instead, it allocated payroll costs based on the percent of revenue received from each funding source, without regard to benefits received by each activity. Thus, the contractor over-claimed payroll costs on CD contracts.
 - b. Contractor's staff misappropriated significant CD funds for personal use due to the lack of internal controls to safeguard funds. As a result, the contractor

CHILD CARE AND DEVELOPMENT PROGRAMS

730

over-claimed costs that were not necessary and reasonable to the performance of the contract. Note: the auditor should report possible fraud to the A&I (see Section 260, entitled *Reporting Fraud*).

- c. The contractor incorrectly claimed costs incurred in the prior fiscal year.
- d. Contractor's accounting records did not adequately support certain expenses claimed for reimbursement. As a result, these expenses were not considered reimbursable.

B. CD Cash Management

1. Audit Objective

Determine whether the contractor followed procedures to (1) administer and safeguard funds received from the CDE, and (2) report interest earned on contract payments and any reserve accounts.

2. Audit Procedures

- a. Identify procedures established by the contractor to administer and safeguard funds and to account for and report any income earned on program funds (Title 34, CFR, Part 74.21).
- b. Determine whether funds were deposited as required and that interest earned on deposited funds was recorded and reported, as required (*EC* Section 8450(f)).
- c. For alternative payment programs and other programs with direct payments to providers, identify checks that were issued to providers, which were not cashed and have remained outstanding (1) past the expiration dates of the checks, or (2) longer than six months from issuance, if the checks do not have expiration dates (California Uniform Commercial Code, Section 4404).
- d. Determine whether attempts to contact payees were reasonable and identify the planned action for reclaiming the funds, e.g., debiting cash and crediting an expense. If the checks were written off in a subsequent fiscal year, determine whether the contractor correctly reported the check amounts on the appropriate AUD forms under Restricted Income, Uncashed Checks to Providers.

CHILD CARE AND DEVELOPMENT PROGRAMS

730

3. Examples of Deficiencies

- a. The contractor did not maintain the required reserve fund balance approved by the CDE for its contracts. After notification by the CDE of the contractor's continued noncompliance, the contractor was billed for the entire reserve account balance of \$95,000.
- b. Reserve account funds were not deposited into an interest bearing account and included in the fund balance of the reserve account.

C. CD Eligibility

1. Audit Objective

Determine whether the contractor's system to establish child eligibility reasonably assures that eligibility was properly determined and documented by the contractor, and that only eligible recipients received appropriate assistance under the contract.

2. Audit Procedures

- a. Identify eligibility requirements defined in the *FT&C* for the applicable program and fiscal year on the Web site at <http://www.cde.ca.gov/fq/aa/cd/index.asp>. Also, see *Management Bulletins* at <http://www.cde.ca.gov/sp/cd/ci/allmbs.asp>, which provide income eligibility schedules, fee schedules, and additional guidance on interpreting program requirements.
- b. Determine whether the eligibility of recipients tested was established and documented according to eligibility program requirements (e.g., center-based *FT&C*, Program Requirements, sections I.D through I.Q).
- c. Verify that only eligible children in center-based programs were claimed by the contractor.
- d. Verify that provider payments were made only for eligible children in alternative payment programs.

3. Examples of Deficiencies

- a. A center-based program contractor overstated 620 child days of enrollment and days of attendance involving 2 (seven percent) of 30 children tested because the families did not meet need criteria for eligibility (*FT&C*, Program Requirements, Section I.C). As a result, fiscal year earnings were overstated and the contractor incorrectly received unearned CDE funds. (Earnings did

CHILD CARE AND DEVELOPMENT PROGRAMS

730

- b. not have to be adjusted for overstated attendance because of the five percent “Attendance Flex Factor.”)
- c. Five (three percent) of 40 alternative payment program recipients tested were not income eligible, resulting in unauthorized provider payments (*FT&C*, Program Requirements, Section I.B).

D. CD Equipment

1. Audit Objective

Determine whether the contractor maintains required records for equipment purchased with CDE funds and adequately safeguards, maintains, and disposes of such equipment.

2. Audit Procedures

- a. Obtain the contractor’s policies and procedures for equipment management. Determine whether they comply with the state’s policies and procedures (*CSAM* Procedure 770) and with the grants management requirements listed in Section 716, herein.
- b. Test equipment transactions for compliance with policies and procedures for managing and disposing of equipment, including prior approvals and bidding requirements (*FT&C*, Section III on Facilities and Equipment, and the OMB Compliance Supplement, Part 3.F).
- c. Determine whether the contractor claimed depreciation on equipment that was donated or purchased with public funds (*FT&C*, Section III.A).
- d. Verify the appropriate amount of depreciation or use allowance was claimed for equipment that was not donated or purchased with public funds (*FT&C*, Section III.A).
- e. Inquire if a physical inventory of equipment, purchased with state or federal funds and valued at over \$500, was taken within the last two years and reconciled with the equipment records.
- f. Ascertain whether differences between the physical inventory and equipment records were resolved adequately (*FT&C*, Section III.D).

CHILD CARE AND DEVELOPMENT PROGRAMS

730

3. Examples of Deficiencies

- a. The contractor failed to comply with competitive bidding and prior approval requirements for equipment expenditures, resulting in a disallowance of \$14,500.
- b. Equipment was not properly safeguarded from loss – physical inventories were not taken every two years, items were untagged, serial numbers were unrecorded, and equipment could not be located that had been recorded in the general ledger.

E. CD Matching and Maintenance of Effort

1. Audit Objective

Determine whether (1) the minimum amount or percentage of contributions or matching funds was provided, (2) specified service or expenditure levels were maintained, and (3) minimum or maximum limits for specified purposes or types of participants were met.

2. Audit Procedures

a. Matching

- 1) Perform tests to verify that any required matching contributions (contract face sheet) were provided.
- 2) Determine sources of matching contributions and verify that they were from an allowable source (Title 34, CFR, parts 74.23 and 80.24).
- 3) Perform tests to corroborate that the values placed on in-kind contributions were in accordance with applicable cost principles and program requirements (Title 34 CFR, parts 74.23 and 80.24).

b. Level of Effort – Maintenance of Effort

The state funds for CD services provided within a county are subject to the maintenance of effort requirements of *EC*, sections 8279 and 8279.1. Section 8279 states that each county shall, as a minimum, maintain the level of expenditure for CD services provided by the county during fiscal year 1970-71. These funds shall be used exclusively for CD programs and shall be considered unrestricted unless restricted by the county granting the funds. Section 8279.1 provides for a county's written certification to that effect.

CHILD CARE AND DEVELOPMENT PROGRAMS

730

- 1) Verify that the county has maintained CD service expenditures at a level at least equal to that of fiscal year 1970-71.
- 2) Verify maintenance of effort (MOE) was reported correctly:

MOE funds are disbursed directly by county welfare departments to agencies providing CD services. Generally MOE funds are administered under two types of contracts, either (1) a contract that requires agencies to identify specific children served, or (2) a contract where MOE funds are spent for the benefit of all children. The auditor must review a contractor's MOE contract to determine the type of contract.

Regardless of the type of contract administered by a contractor, costs associated with MOE funds should be reported in the reimbursable expenses section of the contractor's AUD form.

If MOE funds were for specifically identified children, then these children must be reported as noncertified. The adjusted days/hours of enrollment for noncertified children must be included in the contractor's AUD form as "Total Adjusted Days/Hours of Enrollment" for noncertified children. Any MOE funds for noncertified children are not to be reported as restricted income, but should be reported as unrestricted income on the AUD form.

If MOE funds are used for the purpose of paying expenses that benefit all children, then MOE funds are to be reported on the AUD form in the Restricted Income section as "County Maintenance of Effort."

3. Example of Deficiency

Matching requirement of \$15,000 was not met, requiring contractor to repay the CDE \$15,000.

F. CD Procurement

1. Audit Objective

Determine whether the contractor's procurements complied with the requirements of the contract and applicable laws and regulations.

2. Audit Procedures

- a. Identify procurement requirements of the contract or grant agreement.

CHILD CARE AND DEVELOPMENT PROGRAMS

730

- b. Test selected procurement transactions to verify that the contractor complied with applicable requirements, such as bidding, selection, and prior approval processes (OMB Circular A-110; and *FT&C*, Section III.C).

3. Examples of Deficiencies

- a. Procurements did not provide for full and open competition. Purchases were made from affiliates at inflated prices, overstating costs by \$7,438 (OMB Circular A-110, Section 215.43).
- b. Prior written approval was not obtained by the contractor for equipment purchases exceeding \$7,500 per item, and three bids were not obtained for equipment purchases exceeding \$5,000 (*FT&C*, Section III.C). The disallowance of purchases totaled \$13,560.

G. CD Program Income

1. Audit Objective

Determine whether program income was correctly calculated, recorded, and used according to program requirements.

2. Audit Procedures

- a. Review the laws, regulations, and provisions of contracts or grant agreements applicable to the program. Establish whether program income was earned. If so, evaluate the contractor's requirements for (1) verifying or assessing the amount of program income, (2) recording program income, (3) reporting program income, and (4) spending program income.
- b. Determine whether fees were charged and collected according to program requirements:
 - 1) For alternative payment programs, *EC* Section 8224 states that the audit shall include, but not be limited to, a sampling of evidence of fees charged to, and paid by, families of non-subsidized children, the daily enrollment of subsidized children, the number of days of service provided to subsidized children, the assessment and collection of parent fees, and the availability of support services to subsidized children and their families as needed pursuant to the terms of the contract.
 - 2) For center-based programs, *EC* Section 8267 states that the audit shall include a sampling of the evidence of fees paid by families of nonsubsidized children, the average daily enrollment of subsidized and

CHILD CARE AND DEVELOPMENT PROGRAMS

730

nonsubsidized children, the average number of days of service provided to subsidized children, and the services provided to subsidized children pursuant to the terms of the contract.

- c. Verify that (1) program income was determined properly or calculated in accordance with stated criteria, and (2) the program income was collected only from allowable sources.
- d. Verify on a test basis whether income earned on program funds was properly recorded in the accounting records and reported to the CDE.
- e. Determine whether program income was used in accordance with program requirements.

3. Examples of Deficiencies

- a. Five families (17 percent) of 30 families tested were overcharged \$1,650 of fees due to incorrect calculation of family income (*FT&C*, Program Requirements, Section IV.A).
- b. The contractor did not record in the general ledger or report to the CDE \$5,400 of fees collected from 5 program participants (10 percent) of 50 tested (*FT&C*, Section VI.F; and Program Requirements, Section IV.A).

H. CD Reporting

1. Audit Objective

Determine whether the CDE-required child development reports (CDFs forms) for applicable contracts include total activity for the state fiscal year ended June 30, are stated correctly, and are adequately supported by applicable accounting and other records.

The *FT&C*, Section VI.F requires a contractor to submit to CDFs accurate and complete attendance and fiscal reports for each contract. The CDE relies on CDFs reports as a basis for advancing funds to a contractor.

Any reporting errors on the CDFs forms should be corrected on the AUD forms that are included in the audit. See Section 310.A, AUD Forms.

CHILD CARE AND DEVELOPMENT PROGRAMS

730

The following audit procedures address information reported on AUD forms.

2. Audit Procedures on Reporting Enrollment, Operation, and Attendance (Center-Based Programs)
 - a. Determine whether the contractor accurately classified and reported the days of enrollment, operation, and attendance (*FT&C*, sections VI.C, VI.D, and VI.F).
 - b. Ascertain whether the contractor had a daily sign-in/sign-out attendance register and whether it correctly reflected the number of hours of child care needed each day, as shown on the child's application. The child's actual time of arrival and departure must be recorded. Verify that the sign-in/sign-out sheets included the following information, as applicable:
 - 1) Full signature of the parent or authorized adult who dropped off and picked up the child.
 - 2) Full signature of the staff person designated for recording the times of arrival and departure if the child is not dropped off or picked up by a parent or other authorized adult.
 - 3) First and last initials of the staff person designated to record the times a school-age child departed for and returned from school during the day.
 - c. Verify the contractor's attendance accounting records contain the following information for claimed excused absences:
 - 1) Name of child
 - 2) The date(s) of absence
 - 3) The specific reason for the absence
 - 4) The parent's or designated staff person's signature if verification is made by telephone
 - d. Verify that no more than ten excused absences "in the best interest of the child" were claimed during the contract period, except for children who were recipients of protective services or at risk of abuse or neglect.
 - e. Determine whether the contractor's governing board adopted policies regarding the following:
 - 1) Circumstances constituting excused absences for "family emergencies" and absences considered to be "in the best interest of the child."

CHILD CARE AND DEVELOPMENT PROGRAMS

730

- 2) Circumstances defining unexcused absences.
 - f. Determine that the attendance records substantiate attendance reports submitted to the CDFS for center-based contracts.
 - g. Verify that the attendance and fiscal reports agree with the accounting records that support the financial statements.
 - h. Verify that the required Independent Auditor’s Assurances are completed on applicable AUDs; that is, the “Yes” or “No” box is checked to indicate whether:
 - 1) Eligibility, enrollment, and attendance records were being maintained as required.
 - 2) Reimbursable expenses claimed were eligible for reimbursement, reasonable, necessary, and adequately supported.
3. Audit Procedures on Reporting Revenue
- a. Determine whether income was appropriately reported under restricted income when the donor restricted its use for the purchase of goods and services that are reimbursable under the contract, e.g., revenue received from the CDE for child nutrition programs, maintenance of effort funds received from the county, in-kind rent, and fees collected from fundraising or for field trips.
 - b. Ascertain that funds transferred from the reserve account to pay for reimbursable expenses were reported in the same amount on the (1) designated line of the contract’s AUD form and on the (2) Audited Reserve Account Activity Report (AUD 9530-A).
 - c. Verify that any other income was reported correctly on the appropriate lines.
4. Audit Procedures on Reporting Reimbursable Expenses
- a. Verify that reimbursable expenses exclude any nonreimbursable expenses, in accordance with applicable provisions of the *FT&C*. Note that any nonreimbursable *program* expenses would be reported under Supplemental Expenses. However, any expenses not related to the program would not be reported on the AUD form.
 - b. Verify that the indirect cost rate of 8 percent was not exceeded and was applied only to budget categories 1000-5000 and any provider payments.

CHILD CARE AND DEVELOPMENT PROGRAMS

730

- c. Verify that any claimed start-up/service level exemption allowance did not exceed the approved amount shown on the contract face sheet and that it was reimbursable according to *FT&C*, Section V.D.

5. Audit Procedures on Reporting Supplemental Revenue

Verify that revenue reported under Supplemental Revenue was for program expenses that were not reimbursable by CDE.

6. Audit Procedures on Reporting Supplemental Expenses

Verify that expenses reported under Supplemental Expenses were for program expenses that are related to Supplemental Revenue, or other nonreimbursable program expenses.

7. Examples of Deficiencies

- a. Enrollment and attendance were overstated by 5,400 days. As a result, the contractor incorrectly received unearned CDE funds because fiscal year earnings were overstated for (1) child days of enrollment and (2) attendance in excess of the five percent “Attendance Flex Factor.”
- b. Contractor staff did not maintain sign-in/sign-out sheets on a regular basis, so the contractor could not support 11,549 days of reported attendance, which could reduce reimbursable earnings.
- c. The report excluded \$150,000 of child nutrition program revenue from restricted income, but included related reimbursable expenses. Thus, the contractor’s claim was overstated by \$150,000.
- d. The report erroneously included contract advances (apportionments) of \$354,000 under restricted income. Without correction, this would reduce the reimbursable costs and could result in a \$354,000 billing to the contractor.
- e. The contractor erroneously included capital outlays in the base amount for determining indirect costs, in effect claiming in excess of the 8 percent maximum rate.
- f. The contractor did not claim start-up expenses to which the contractor was entitled, thereby foregoing funding on the amount of costs that did not have to be earned.

Note: For other types of contracts, refer to applicable program *FT&C* and test applicable revenues and expenses for compliance.

CHILD CARE AND DEVELOPMENT PROGRAMS**730**

I. CD Sub-recipient Monitoring

An organization, as prime contractor, may choose to subcontract services under direct service contracts, i.e., the contractor may have another organization operate one or more of its CD programs for which the prime contractor contracts with the CDE. Also, see Section 350, entitled Reporting Subcontracts for Operating Child Development Programs. Note that affected subcontractors exclude those that operate CD programs only for school districts.

1. Audit Objective

Determine whether the contractor has complied with CDE subcontracting requirements.

2. Audit Procedures

- a. Verify whether the contractor's subcontract agreement contains the (1) provisions required by the contract (*FT&C*, Section IV.D); and (2) contractual arrangements listed in the Subcontract Certification that is part of the contract application package.
- b. Determine whether the contractor adequately monitored the performance of the subcontractor, ensuring that the subcontractor complied with the provisions of the subcontract and provided services appropriately for the year audited.
- c. Ascertain whether the contractor obtained an appropriate audit from the subcontractor in compliance with Audit Requirements for Subcontractors, as prescribed in the contract *FT&C*.

3. Examples of Deficiencies

- a. The subcontract agreement did not describe the services to be performed under the subcontract. As a result, the contractor could not adequately monitor the performance of the contract and ensure appropriate services were provided.
- b. Contractor did not obtain an audit from the subcontractor to submit with its audit to the CDE. Consequently, the contractor's audit was considered delinquent and the CDE suspended the contractor's funding.
- c. Subcontractor's audit did not meet the requirements of the *CDE Audit Guide*. (The audit was returned for completion within 30 days, or the contractor's funding would be suspended.)

NUTRITION PROGRAMS

740

The procedures for auditing compliance with nutrition program requirements focus on Child Care Centers, Adult Day Care Centers, and Day Care Homes that administer the CACFP. The CACFP is one of the largest nutrition programs in terms of funding. Also, the audit procedures apply to the SNP and SFSP for Children.

The USDA, FNS manages nutrition programs at the federal level. The nutrition programs included in this audit guide are authorized by sections 2, 13, and 17 of the National School Lunch Act, as amended; and sections 3 and 4 of the Child Nutrition Act of 1966, as amended. Nutrition program operations are governed by Title 7 of the CFR, Parts 210 to 299, Parts 3015 to 3019, and Part 3052. The FNS Instruction 796-2, Rev. 3, establishes CACFP standards, principles, and guidelines for financial management.

The CDE, NSD, oversees nutrition programs at the state level. The CDE is authorized to administer nutrition programs for nonprofit, for-profit, governmental, and educational entities, pursuant to *EC*, sections 8240, 49531, 49540-49546, and 49550. However, local educational agencies, i.e., school districts, are not subject to the audit procedures in the *CDE Audit Guide*.

An entity that enters into a nutrition program agreement with the CDE assumes administrative and financial responsibility for providing federally-subsidized meals and/or milk to children in most child care settings and federally-subsidized meals to adults in day care settings.

For additional nutrition program information and general audit reporting requirements, see Chapter 400 and Appendices B through E. The audit compliance areas, presented below, contain audit objectives, audit procedures, and examples of common audit deficiencies.

CHILD CARE CENTERS

742

A Child Care Center is a facility licensed to provide child care services to children, including nutrition services under the CACFP (Title 7, CFR, Part 226). California's licensing requirements define a "Child Care Center" as any child care facility of any capacity, except a day care home, in which less than 24-hour per day non-medical care and supervision are provided to children in a group setting.

A Child Care Center may have two types of sponsors: (1) a sponsor of a *center* is an organization that owns and operates its own centers and (2) a sponsor of an *independent center* is an organization that provides administrative services to centers that it does not legally own.

Note: Many of the following child care center audit procedures also apply to adult day care centers. However, the meals and eligibility requirements for adult day care centers are different than child care centers. Adult day care centers are public, private non-

CHILD CARE CENTERS**742**

profit, and for-profit adult day care facilities that provide structured, comprehensive services (including the CACFP) to nonresidential adults who are functionally impaired, or age 60 and older. Each adult day care center must be licensed or approved to operate by a federal, state, or local government agency. For additional information on adult day care center meals and eligibility, refer to CDE's *Adult Day Care Center Component* on the Web site at <http://www.cde.ca.gov/ls/nu/cc/adc.asp>.

A. Child Care Centers – Activities and Costs**1. Audit Objective**

Verify that nutrition funds were expended only for allowable activities and costs.

2. Audit Procedure

Determine whether nutrition funds were expended only for allowable activities and costs, and expenditures were adequately supported by accounting records and other documentation (Title 7, CFR, Part 226.6 2 vii A, Title 7, CFR, Part 225.15(e), FNS Instructions 796-2 Rev 3).

Note: There is no provision to reimburse centers for administrative costs.

3. Examples of Deficiencies

- a. Did not maintain a separate food service account to adequately document program expenditures. For example, the center did not have an adequate accounting system in place to record CACFP funds or support food service expenditures necessary for the number of meals claimed for reimbursement.
- b. Failed to maintain timesheets or time distribution reports of staff who worked in more than one federally funded program to support the number of labor hours that directly benefited the CACFP program.
- c. Did not maintain adequate support (such as invoices, approved food service contracts, or adequate accounting records) for program expenditures. For example, the center was unable to provide vendor invoices or source documents to substantiate meal component costs such as milk, bread, grain products and vegetables to support the number of meals claimed for reimbursement.
- d. Failed to adequately document the CACFP reimbursement.
- e. Used the CACFP reimbursement for unallowable expenditures such as bottled water and coffee for center staff.

CHILD CARE CENTERS

742

- f. Procured meals from an affiliated vendor at inflated prices.

B. Child Care Centers – Cash Management

1. Audit Objective

Determine whether the CACFP center sponsor correctly handled any outstanding checks payable to centers.

2. Audit Procedure

Verify that the sponsoring organization disbursed advance and meal reimbursement payments to other centers within five working days of receiving them (Title 7, CFR, Part 226.16(g) and (h)).

C. Child Care Centers – Enrollment and Eligibility

1. Audit Objective

Verify that CACFP participants were eligible and enrolled in the program in accordance with the requirements of Title 7, CFR, Part 226.

2. Audit Procedures

- a. Verify that the center made proper eligibility determinations.
- b. Determine whether the center maintained adequate support for child enrollment and claimed meal eligibility categories (free, reduced, and base-price). Note that reimbursement is based on the percentage of “free”, “reduced-price” or “base” applicants that the center reports as enrolled in the program (Title 7, CFR, Part 226.17 (b) and (c)).

For Income Eligibility Guidelines and Reimbursement Rates, visit the CDE Web site at <http://www.cde.ca.gov/ls/nu/cc/cc.asp>.

3. Examples of Deficiencies

The center’s fixed rate of reimbursement was not supported by its eligibility and participant enrollment records, resulting in an over-reimbursement of program funds. Examples:

- a. Child’s meal benefit form was not certified by the center.
- b. Child’s meal benefit form was certified after the reporting month, so the child as not eligible for free or reduced price meals.

CHILD CARE CENTERS

742

- c. Center did not have enrollment documentation on file to demonstrate the child participated in the program.
- d. Center made an improper income calculation on the child's meal benefit form and improperly reported eligibility type.
- e. Center listed and reported the same child twice on the roster, had footing errors on the roster, or reported children who had dropped from the program, all resulting in inaccurate reporting of eligibility percentages.

D. Child Care Centers – Earmarking

1. Audit Objective

Determine whether administrative costs were reimbursed in accordance with program requirements.

2. Audit Procedures (Title 7, CFR, Part 226.6(f))

Verify that the center retained no more than 15 percent of meal reimbursement for its administrative expenses, unless CDE granted a waiver.

E. Child Care Centers – Reporting

1. Audit Objective

Verify that the center accurately reported meal counts.

2. Audit Procedures

- a. Determine whether the center accurately reported point of service meal counts by meal type.
- b. Ascertain whether reported meals (Title 7, CFR, parts 226.11 (c) and 226.17 (b) 3):
 - 1) Were served only to enrolled children
 - 2) Did not exceed licensed capacity
 - 3) Did not exceed the number of children in attendance

The auditor should be alert to indications of misreporting; e.g., the same meal counts being reported each day, or meal counts exceeding the number of participants in attendance.

CHILD CARE CENTERS

742

3. Examples of Deficiencies

- a. Claimed non-enrolled program recipients, which overstated the number of allowable CACFP meals claimed.
- b. Claimed a significant number of meals that were not supported by the daily point of service meal count sheets.
- c. Claimed more than two meals and one snack, or one meal and two snacks per day for each child.
- d. Inaccurately calculated the point of service meal counts, overstating claimed meals.
- e. Reported claimed meals that exceeded the number of children in attendance or the licensed capacity.
- f. Claimed meals based on a roll call taken in the morning for each site, instead of point of service meal counts.
- g. Claimed meals in excess of those prepared for the children each day, or in excess of vended meals.

Report any adjustments on the appropriate audit report schedule (Chapter 400 and Appendix B for Centers, or Appendix D for Independent Centers).

DAY CARE HOMES

744

A day care home, sometimes referred to as a family day care home, is a private home licensed to provide day care services, including nutrition services under the auspices of a sponsoring organization. A sponsoring organization is a public or nonprofit organization that is responsible for administering a food program in one or more day care homes. Note that day care homes may not enter into an agreement directly with the CDE.

A. Day Care Homes – Activities and Costs

1. Audit Objective

Verify that nutrition funds were expended only for allowable activities and costs.

2. Audit Procedures

Perform the following procedures to test administrative costs and provider payments (Title 2, CFR, parts 225 and 230; FNS Instruction 796-2, Rev. 3):

a. Administrative Costs

- 1) Determine whether source documents validate the amount and allowable purpose of administrative costs tested.

DAY CARE HOMES

744

- 2) Ascertain whether total monthly administrative expenses claimed were adequately supported by the organization's financial records.
 - 3) Verify payroll costs for employees who worked less than 100 percent of their time in the CACFP and substantiate that they documented and maintained time and attendance records to support actual hours worked in the CACFP.
 - 4) Determine whether reimbursement claimed for administrative costs exceeded the authorized amount budgeted.
- b. Provider Payments
- 1) Verify the accuracy of the schedules of meals served.
 - 2) Determine whether payments to providers were adequately supported by bank statements or cancelled checks, remittance advices, and accounting records.
3. Examples of Deficiencies

The sponsor:

- a. Charged administrative costs related to a tax and notary service that did not directly benefit the CACFP program
- b. Charged salary costs for employees who worked less than 100 percent of their time in the CACFP program without adequate documentation to support the number of actual hours worked
- c. Failed to offset state administrative costs
- d. Claimed costs that were unallowable, were not approved, and exceeded the approved amounts in the annual budget
- e. Under-reported the amount of state administrative income, resulting in an overpayment of federal administrative income (USDA, *FNS Instruction 796-2, Revision 3*, Section VI, C, 3 requires that all income to the program must be retained and used in the institution's nonprofit food service account. Further, Section IX, D, 6d, requires that administrative income be deducted from CACFP day care home sponsor administrative costs to determine net reimbursable administrative costs)
- f. Transferred funds from its CACFP account into its general account

B. Day Care Homes – Cash Management

1. Audit Objective

DAY CARE HOMES

744

Determine whether the CACFP day care home sponsors correctly handled any outstanding checks payable to providers.

2. Audit Procedures

- a. Verify that the sponsoring organization disbursed advance and meal reimbursement payments to its day care homes within five working days of receiving them (Title 7, CFR, Part 226.16(g) and (h)).
- b. Identify checks issued to a provider that were outstanding more than nine months. Determine whether the sponsor made adequate attempts to locate the provider, or to return the funds to the CDE (NSD Management Bulletin No. NSD-CACFP-05-2007).

3. Example of Deficiency

The sponsor failed to timely reconcile provider payments and remit uncashed provider checks to the state, resulting in excess funds in the CACFP account.

C. Day Care Homes – Eligibility

1. Audit Objective

Verify that CACFP recipients are eligible under the program in accordance with the requirements of Title 7, CFR, Part 226.

2. Audit Procedure

Determine whether the providers' Tier I and Tier II eligibility determinations were accurate and supported by low income elementary school boundary area information, census data, or documentation of low household income (see the USDA's CACFP Eligibility Guidance for Family Day Care Homes, and the OMB A-133 Compliance Supplement, Part 4-10.558, III.E)

3. Examples of Deficiencies

The agency:

- a. Did not utilize official elementary school boundary maps or other documentation to verify that the provider's home was located in a low income elementary school area. This resulted in the agency improperly paying 60 percent of its Tier II providers the higher Tier I rate.

DAY CARE HOMES

744

- b. Failed to maintain required documentation to demonstrate that the provider's own children were eligible for the higher Tier I rate, such as: elementary school boundary maps, showing that the provider was located within a low income elementary school area; current enrollment forms for all enrolled children; and meal benefit forms.
- c. Improperly paid a Tier II provider the higher Tier I rate because it failed to adequately certify provider income, or provider categorical status (as documented by a food stamp, FDPIR or TANF case number).
- d. Failed to maintain current meal benefit forms from the participating households of all children enrolled in the home of a Tier II provider.

D. Day Care Homes – Equipment

1. Audit Objective

Determine whether the organization maintains required records for equipment purchased with CDE funds and adequately safeguards, maintains, and disposes of such equipment.

2. Audit Procedures

- a. Obtain the organization's policies and procedures for equipment management. Determine whether the organization complied with the grants management requirements (Title 7, CFR, Part 3019.34 and Title 34, CFR, Part 3016.32).
- b. Test equipment transactions for compliance with policies and procedures for managing and disposing of equipment, including prior approvals and bidding requirements.
- c. Verify that a physical inventory of equipment acquired using federal funds was taken within the last two years. Test whether any differences between the physical inventory and equipment records were adequately resolved (Title 7, CFR, Part 3019.34 and Title 34, CFR, Part 3016.32).

3. Examples of Deficiencies

- a. The sponsor failed to comply with competitive bidding and prior approval requirements for equipment expenditures.

DAY CARE HOMES

744

- b. Equipment was not properly safeguarded from loss – a physical inventory was not taken every two years, items were untagged, serial numbers were unrecorded, and equipment could not be located that had been recorded in the general ledger.

E. Day Care Homes – Reporting

1. Audit Objective

Verify the organization accurately reported meals claimed for reimbursement.

2. Audit Procedures

- a. Verify that children were enrolled, meals served at any one time to children were not in excess of licensed capacity, and the provider’s own children were eligible to receive free or reduced price meals.
- b. Identify any variances between meals reported for reimbursement and meals supported by documentation. Evaluate the effect of any variances on the reimbursement an organization received or was scheduled to receive.
- c. Report any adjustments on the appropriate audit report schedule (Chapter 400 and Appendix C).

3. Examples of Deficiencies

- a. Ineligible program recipients were claimed. This overstated the number of allowable CACFP meals claimed.
- b. Incomplete shift documentation resulted in meals claimed in excess of licensed facility capacity.

SCHOOL NUTRITION PROGRAMS

746

The National School Lunch Program (Title 7, CFR, Part 210) and the School Breakfast Program (Title 7, CFR, Part 220) offer free or reduced-price, prepared meals to eligible children in structured settings. The Special Milk Program for Children (Title 7, CFR, Part 215) generally provides milk to children in schools and child-care institutions that do not participate in other federal meal service programs. It should be noted that this audit guide addresses only non-public schools. Such “schools” for school nutrition program purposes would include a nonprofit private school of high school grade level or under, or a public or licensed nonprofit private residential child-care institution.

SCHOOL NUTRITION PROGRAMS

746

A. School Nutrition Program – Eligibility

1. Audit Objective

Verify that only eligible children were enrolled in the program in accordance with the requirements of Title 7, CFR, Part 245.

2. Audit Procedures

- a. Determine whether enrolled individuals were eligible to receive free or reduced-price meals under the program by meeting the eligibility requirements of Title 7, CFR, Part 245.6. Also, see the OMB A-133 Compliance Supplement, Part 4-10.553, III.E.
- b. Determine the impact that errors in categorizing enrolled participants or reporting eligibility may have had on the reimbursement amount that the organization received or was scheduled to receive.

B. School Nutrition Program – Procurement

1. Audit Objective

Determine whether the organization's procurements complied with the requirements of the agreement and applicable laws and regulations.

2. Audit Procedures (also see the OMB A-133 Compliance Supplement, Part 4-10.553, III.L.1.b and 1.c(2))

a. Contracts with Food Service Management Companies

Determine whether, before awarding or amending a contract to a food service management company, the school food authority (SFA) operating the programs (1) obtained the NSD's review and approval of the contract terms, (2) incorporated all changes that the NSD required, (3) obtained written NSD approval of any changes made to a pre-approved prototype contract, and (4) submitted requested procurement documents for inspection by the NSD (Title 7, CFR, parts 210.16(a)(10) and 220.7(d)(1)(ix)).

b. Cost-Reimbursable Contracts

- 1) Determine whether cost-reimbursable contracts awarded by the SFA included the following required provisions:

SCHOOL NUTRITION PROGRAMS

746

- a) Entity billing documents separately identify allowable and unallowable portions of each cost, or include only allowable costs and a certification that payment is sought only for such costs.
 - b) Entity must identify the amount of each discount, rebate, and other applicable credit on bills and invoices presented for payment. If approved by the NSD, the entity may report less frequently than monthly, but at least annually.
- 2) Verify no costs from a cost-reimbursable contract were paid from the SFA's nonprofit school food service account if: (a) the underlying contract does not include the foregoing provisions; or (b) such disbursement would result in the entity receiving payments in excess of the entity's actual, net allowable costs (7 CFR sections 210.21(f), 215.14a(d), and 220.16(e)).

These requirements are effective for new contracts with solicitations issued on or after November 30, 2007.

C. School Nutrition Program – Subrecipient Special Reporting

1. Audit Objective

Determine whether the organization submitted complete and accurate claims for reimbursement of meals and milk (NSLP at Title 7, CFR, Section 210.8(b)).

2. Audit Procedures (also see the OMB A-133 Compliance Supplement, Part 4-10.553, III.L.3.b, for additional details and exceptions to special reporting for subrecipients)

- a. Verify that the claim included the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim.
- b. Determine whether claims were supported by documented, accurate meal counts.
- d. Report any adjustments on the appropriate audit report schedule (Chapter 400 and Appendix E).

SUMMER FOOD SERVICE PROGRAM FOR CHILDREN

748

The SFSP for Children (Title 7, CFR, Part 225) provides free or reduced-price meals to children during summer vacation when schools are not in session. It should be noted that this audit guide addresses only non-public schools. Approved program sponsors may include public or nonprofit residential summer camps, or units of local governments and other private nonprofit organizations that develop a special summer or other school vacation program that provides services similar to those available to children during the school year under the school nutrition programs.

A. SFSP for Children – Eligibility

1. Audit Objective

Determine whether only eligible children were enrolled in the program in accordance with the requirements of Title 7, CFR, Part 225.

2. Audit Procedures (also see the OMB A-133 Compliance Supplement, Part 4-10.558, III.E)

- a. Determine whether enrolled individuals were eligible to receive meals under the program by meeting the definition of “children,” as defined by Title 7, CFR, Part 225.2.
- b. Evaluate the impact that errors in categorizing enrolled participants or reporting eligibility may have had on the reimbursement amount that the organization received or was scheduled to receive.

B. SFSP for Children – Procurement

1. Audit Objective

Determine whether the organization’s procurements complied with the requirements of the contract and applicable laws and regulations.

2. Audit Procedures

- a. Determine whether the sponsor awarded a contract to a firm for which it used to orchestrate the procurement leading to the contract (e.g., preparing specifications, drafting solicitations, preparing contract terms).
- b. Identify procurement requirements of the contract or grant agreement and verify that the entity complied with applicable requirements, such as bidding, selection, and prior approval processes (OMB Circular A-110).

SUMMER FOOD SERVICE PROGRAM FOR CHILDREN

748

3. Example of Deficiency

Procurements did not provide for full and open competition. Purchases were made from affiliates at inflated prices (OMB Circular A-110, Section 215.43).

C. SFSP for Children – Subrecipient Special Reporting

1. Audit Objective

Determine whether the organization submitted complete and accurate claims for reimbursement of meals (Title 7, CFR, parts 225.9(d) and 225.15(c)(2)).

2. Audit Procedures (also see the OMB A-133 Compliance Supplement, Part 4-10.553, III.L.3.b(1)(b)).

- a. Verify that the claim included the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim.
- b. Determine whether claims were supported by accurate meal counts.
- c. Report any adjustments on an appropriate audit report schedule (see Section 440).

ADULT EDUCATION PROGRAMS

750

The Workforce Investment Act of 1998 (WIA), Public Law 105-220, was enacted to consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs in the United States.

Title II of the WIA, entitled Adult Education and Family Literacy Act, was established to create a partnership among federal, state, and local governments to provide, on a voluntary basis, adult education and literacy services to (1) assist adults to become literate and obtain the knowledge and skills necessary for employment and self-sufficiency, (2) assist adults who are parents to obtain the educational skills necessary to become full partners in the educational development of their children, and (3) assist adults in the completion of a secondary school education.

The procedures for auditing compliance with AE Program requirements focus on organizations that have the ability to provide literacy services to adults and families, including: (1) community-based, (2) volunteer literacy, or (3) public or private nonprofit entities. All other AE providers, including LEAs, must meet other audit requirements (e.g., those of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*).

For additional AE Program information and general audit reporting requirements, see Chapter 500.

Program requirements applicable to audits include the Workforce Investment Act of 1998 (WIA), Title II and other pertinent laws, regulations, rules and guidelines:

- Education Department General Administration Regulations (34 CFR Parts 74-86 and 97-99)
- OMB Circular No. A-122, *Cost Principles for Non-Profit Organizations*
- CSAM
- WIA, Title II Program Reapplication Guidelines and Requirements
- WIA, Title II General Assurances
- Comprehensive Adult Student Assessment System (CASAS) Administration Manual for California

The audit compliance areas, presented below, contain audit objectives, audit procedures, and examples of common audit deficiencies.

A. Adult Education (AE) Activities & Costs

1. Audit Objective

Determine whether funds were expended only for allowable activities and costs, as required by federal regulations and cost principles.

ADULT EDUCATION PROGRAMS

750

2. Audit Procedures

- a. Determine whether payroll costs are adequately supported by reports reflecting the distribution of activity of all staff members whose compensation is charged, in whole or in part, directly to the award (OMB Circular No. A-122, Attachment B, 8.m.).
- b. Verify that the activities and costs are reasonable, necessary, properly authorized, allowable, supportable and allocable to the award (OMB Circular A-122, Attachment A, 2-7, and Attachment B).
- c. Confirm that no budget line item changes of ten percent or more were made without CDE's approval for a revised budget (WIA Program Reapplication Guidelines and Requirements, Grant Accountability Requirements and Deliverables, 6. Grant Budget Guidelines).
- d. Confirm that the grantee used no less than 95 percent of its approved funds for carrying out adult education and literacy activities unless a different rate had been approved by the CDE (*Adult Education and Family Literacy Act* General Assurances No. 9).
- e. Verify that the grantee did not charge students for tuition, fees, books, instructional supplies and materials (*Adult Education and Family Literacy Act*, General Assurances No. 3).
- f. Verify that all claimed costs fell within the CSAM budget line items 1000 – 5000 and that no indirect costs were claimed (WIA Program Reapplication Guidelines and Requirements, Grant Accountability Requirements and Deliverables, 6. Grant Budget Guidelines).

3. Examples of Deficiencies

- a. Time sheets or personal activity reports were not maintained to support \$53,728 in labor costs charged to the program for employees working on multiple programs.
- b. The grantee charged \$9,397 in unallowable and/or unsupported costs to the EL Civics grant. Specifically, the grantee: (1) inappropriately charged \$3,300 in bonuses and gifts to employees; (2) did not maintain documentation to support \$2,667 for credit card charges, \$1,161 in travel costs, and \$1,007 in office supplies; and (3) paid a duplicate invoice for \$1,262.

ADULT EDUCATION PROGRAMS

750

- c. The grantee claimed \$9,200 in depreciation costs to the EL Civics grant without having adequate records to support that the costs directly benefited the Adult Education Program.
- d. Based on our review of 31 vendor invoices, 5 invoices (16 percent) did not contain evidence of payment authorizations by management.
- e. The grantee overcharged \$811 in administrative costs to the ESL grant, exceeding the allowable five percent limit. Specifically, we found that the grantee charged a total of \$4,436 in administrative expenses to the grant, including \$1,064 for rent, \$512 for liability insurance, and \$2,860 for utilities. However, total administrative costs for the grant were limited to \$3,625, or five percent of the \$72,500 award.

B. AE Cash Management

1. Audit Objective

Determine whether the grantee followed procedures to administer, account for, and safeguard funds received from the CDE.

2. Audit Procedures

- a. Evaluate whether the grantee's records adequately identified the source and application of funds (Title 34, CFR, Part 74.21 (b)(2)).
- b. Determine whether the grantee maintained and followed its procedures to safeguard funds (Title 34, CFR, Part 74.21 (b)(3)).
- c. Ascertain whether donations, contributions and volunteer services were documented and supported (Title 34, CFR, Part 74.23(h)(5)).
- d. Verify that the grantee used its funding within the appropriate Resource Code Category (WIA Program Reapplication Guidelines and Requirements, Resource Codes and Program Focus Areas).

3. Example of Deficiency

The ESL and the EL Civics grant awards were not separately accounted for. Instead, the grantee inappropriately combined the income and expenses of both adult education grants into a single set of accounts.

ADULT EDUCATION PROGRAMS

750

C. AE Equipment

1. Audit Objective

Verify that equipment purchased with grant funds was adequately safeguarded and accounted for.

2. Audit Procedure

Review the grantee's policies and procedures and test transactions for compliance with: management and recordkeeping requirements; classification and identification requirements; purchasing, disposition and physical inventory requirements; and, proper maintenance requirements (Title 34, CFR, Part 74.34 (f) and (g)).

3. Example of Deficiency

Equipment not properly safeguarded from loss appeared to be missing. Physical inventories were not taken every two years, items were untagged, serial numbers were unrecorded, and equipment could not be located that had been recorded in the general ledger.

D. AE Procurement

1. Audit Objective

Determine whether the grantee established and followed procedures for the procurement of supplies and other expendable property, equipment, real property, and other services.

2. Audit Procedures

- a. Determine whether adequate procedures were in place to analyze lease and purchase alternatives, avoid purchasing unnecessary items, and that solicitations included a description of the technical requirements the bidder was to fulfill (Title 34, CFR, Part 74.44 (a)).
- b. Evaluate whether efforts were made to utilize small businesses, minority-owned firms, and women's business enterprises (Title 34, CFR, Part 74.44 (b)).
- c. Review cost or price analyses used and evaluate elements to determine reasonableness, allocability, and allowability (Title 34, CFR, Part 74.46).

ADULT EDUCATION PROGRAMS

750

- d. Determine whether procurement records contained the basis for contractor selection, justification for lack of competition when competitive bids or offers were not obtained, and the basis for award cost or price (Title 34, CFR, Part 74.46).
- e. Ascertain whether a system was in place for contract administration and performance evaluation (Title 34, CFR, Part 74.47).

3. Example of Deficiency

Procurements did not provide for full and open competition. Purchases were made from affiliates at inflated prices.

E. AE Reporting

1. Audit Objective

Determine whether required reports included all activity of the reporting period, were supported by applicable accounting or performance records, and were accurately presented in accordance with program requirements.

2. Audit Procedures

- a. Review grantee's system for managing and monitoring grant activity. Perform appropriate analytical procedures and ascertain the reasons for any unexpected variances, unmet goals, and cost overruns or high unit costs (Title 34, CFR, Part 74.50 (a) and (d)).
- b. Review program, financial, and accounting records to determine whether the program expenditures were complete and accurately reported on the *Final Invoice and Close-Out Expenditure Report* (Title 34, CFR, Part 74.21 (b)).
- c. Examine the student files for each learner who was awarded one or more Payment Points (PP). Verify that there was documentation of entry and update records; a pre- and post-test; evidence that students attended a minimum of 12 hours of instruction; and no indication of altered, changed or manipulated test information (CASAS Administration Manual for California, Assessment Policy Overview).

3. Examples of Deficiencies

Our review of 50 student files disclosed ten instances of unearned PP in the ABE Program and 15 instances of unearned PP in the EL Civics Program.

ADULT EDUCATION PROGRAMS

750

a. Specifically, in the ABE Program we found:

- 1) Five instances of incorrectly scored and reported student tests.
- 2) Four instances of PP awarded to students who did not attain 12 or more hours of instruction.
- 3) One instance of a student with two different identification numbers awarded a duplicate PP.

b. Also, in the EL Civics Program, we found:

- 1) Ten instances of incorrectly scored and reported student tests.
- 2) Four instances of PP awarded to students who did not attain a minimum of 12 hours of instruction.
- 3) One instance of a test that was taken before the eligible class entry (proxy) date.

NO CHILD LEFT BEHIND PROGRAMS

760

The NCLB Act of 2001 reauthorized and amended federal education programs established under the ESEA.

The procedures for auditing compliance with NCLB Program requirements address two of the NCLB programs, but only when these programs are included in an audit of Child Care and Development programs: (1) the Even Start Program and (2) the 21st Century Program. For additional NCLB program information and general audit reporting requirements, see Chapter 600.

EVEN START PROGRAM

762

Under the Even Start Program, states that receive federal formula grants award competitive sub-grants to community based organizations (CBO). The CBOs operate Even Start programs in partnership with local education agencies.

Even Start program requirements, including applicable laws, regulations, rules, and guidelines:

- ESEA, Title I, Part B, Subpart 3, Sections 1231-1242
- OMB Circular Cost Principles, e.g., OMB Circular A-122 (nonprofit)
- Federal Education Department General Administration Regulations (Title 34, CFR, parts 74-86 and 97-99)
- The CDE Child Development Division Management Bulletin 05-04 (a)
- Program Assurances

EVEN START PROGRAM

762

The audit compliance areas, presented below, contain audit objectives, audit procedures, and examples of common audit deficiencies.

A. Even Start Activities and Costs

1. Audit Objective

Determine whether the CBO expended federal funds only for allowable activities and costs.

2. Audit Procedures

- a. Determine whether program activities carried out with Even Start funds were authorized by an approved grant application according to ESEA, Title I, Part B, Subpart 3, Section 1234(a), and (b)(1)(A) and (b)(2).
- b. Determine whether claimed costs were allowable in accordance with the applicable federal cost principles cited at Title 34, CFR, Part 74.27.
- c. Ascertain whether indirect costs were claimed in violation of ESEA, Title I, Part B, Subpart 3, Section 1234(b)(3).
- d. Verify that funds were not used for capital outlays such as real property, construction (includes structural alterations, but excludes minor remodeling), or renovation (Title 34, CFR, Part 76.533).

3. Example of Deficiency

The CBO did not maintain required personnel activity reports to reflect the actual activity of each employee (OMB Circular A-122, Attachment B, Item 8.M, Support of salaries and wages.) Thus, salaries charged to the program were disallowed for three employees and the CBO returned \$54,679 to the CDE.

B. Even Start Cash Management

1. Audit Objective

Determine whether the CBO established and followed procedures to administer and safeguard funds received from the CDE.

2. Audit Procedure

Identify, evaluate, and test procedures established to administer and safeguard funds and to account for and report interest earned (Title 34, CFR, Part 74.21).

EVEN START PROGRAM

762

C. Even Start Eligibility

1. Audit Objective

Determine whether the CBO's system to establish child and parent eligibility reasonably assured that eligibility was properly determined and documented and that only eligible recipients received appropriate assistance under the grant.

2. Audit Procedure

Determine whether the CBO identified and recruited eligible participants who were most in need of family literacy services, in accordance with ESEA, Title I, Part B, Subpart 3, Sections 1235 and 1236.

D. Even Start Equipment

1. Audit Objective

Verify that equipment purchased with federal funds was adequately safeguarded, maintained, and accounted for.

2. Audit Procedures

For equipment acquired with federal funds (Title 34, CFR, Part 74.34), determine whether the CBO:

- a. Maintained accurate equipment records that included prescribed information.
- b. Tagged the equipment to identify it as purchased with federal funds.
- c. Performed a physical inventory and reconciled it with equipment records at least once every two years.
- d. Had in place a control system with adequate safeguards to prevent loss, damage, or theft of the equipment.
- e. Implemented adequate maintenance procedures to keep the equipment in good condition.
- f. Disposed of unneeded equipment according to federal requirements.

EVEN START PROGRAM

762

3. Example of Deficiency

The CBO had not performed a physical inventory or maintained records to identify equipment purchases. As a result, it could not determine the location or existence of \$10,555 in equipment purchases charged to the program. The CBO had to return funds to the CDE.

E. Even Start Matching and Maintenance of Effort

1. Audit Objective

Determine whether the CBO met the matching and maintenance of effort requirements addressed in *Management Bulletin 09-06*, Sections IV and VI, Partnerships and Matching Resources, and Maintenance of Effort, respectfully.

2. Audit Procedures

- a. Ascertain whether the nonfederal cost of the project (matching share) was provided in cash or in kind (fairly evaluated) from any source, including any federal funds other than Even Start (ESEA, Title I, Part B, Subpart 3, Section 1234(b)(1)(B)).
- b. Determine whether the LEA partner met the maintenance of effort requirements.

3. Examples of Deficiencies

- a. The CBO could not substantiate the value of in-kind rent used to support its matching share. Records indicated the value was overstated by \$12,000.
- b. Only half of the required local share was provided (matching contributions) and it contained unallowable costs and inadequate documentation.
- c. The organization did not maintain its required level of effort (maintenance of effort), or request a waiver. As a result, funding for the project will be reduced in the exact proportion by which the partner failed to meet the requirement.

F. Even Start Procurement

1. Audit Objective

Determine whether the CBO established and followed procedures for the effective procurement of supplies and other expendable property, equipment, and other services with federal funds.

EVEN START PROGRAM

762

2. Audit Procedures

Identify policies and procedures established by the CBO for procurement and determine whether they adhered to federal procurement standards at Title 34, CFR, parts 74.40 through 74.48, including the following procedures:

- a. Evaluated requisitions for procurement of goods and services to ensure unnecessary items were not purchased.
- b. Solicited bids or estimates that clearly established all requirements that the bidder should fulfill in order for the bid or offer to be evaluated by the recipient.
- c. Evaluated bids or estimates (e.g., analyzed comparative prices and quality) to ensure that procurement transactions were conducted in a manner to provide open and free competition to the maximum extent practical.
- d. Selected the lowest bid or estimate that was responsive to the solicitation requirements.
- e. Maintained appropriate procurement records and a system of contract administration to ensure the supplier's conformance with the terms, conditions, and specifications of the agreement for the provision of goods and services.

3. Example of Deficiency

The CBO obtained three bids, but an evaluation of comparative prices and quality supported the selection of a bid other than the bid accepted. As a result, the accepted bid was not responsive to the solicitation requirements and the CBO overpaid as much as \$19,000. The accepted bid had been submitted by an affiliate of the procurement specialist.

G. Even Start Program Income

1. Audit Objective

Determine whether the CBO established and followed procedures for the effective control of program income (if any).

2. Audit Procedures (Title 34, CFR, Part 74.24)

- a. Determine whether the CBO correctly recorded and documented all program income.

EVEN START PROGRAM

762

- b. Verify that the CBO used program income to further eligible program objectives, or to finance the non-federal share of the program.

H. Even Start Reporting

CBOs are required by the CDE to submit for each grant a Final Expenditure Report each fiscal year that shows federal and local/in-kind amounts for six budget categories (Grant Award Notification, Fiscal and Program Timelines, Title 34, CFR, Part 74.62).

1. Audit Objective

Determine whether the CBO submitted accurate Final Expenditure Reports to the CDE for each grant.

2. Audit Procedures

- a. Verify that expenditures reported on the organization’s Final Expenditure Report were reported accurately and in the appropriate budget categories.
- b. Determine whether reported expenditures agree with the accounting records that support the financial statements.

21ST CENTURY PROGRAM

764

Under the 21st Century Program, states receiving federal grants award competitive sub-grants to CBOs and LEAs (only CBOs are addressed in this audit guide).

21st Century program requirements:

- ESEA Act of 1965, Title IV, Part B, Sections 4201-4206
- OMB Circular Cost Principles, e.g., OMB Circular A-122 (nonprofit)
- Federal Education Department General Administration Regulations (Title 34, CFR, parts 74-86 and 97-99)
- *EC*:
 - Article 22.5, After School Education and Safety Program, Sections 8482-8482.4, 8482.6-8483.4, 8483.8-8484.3, and 8484.6-8484.75
 - Article 22.6, 21st Century Community Learning Centers, Sections 8484.7-8484.9
- General Assurances (an attachment to the state grant application)

The audit compliance areas, presented below, contain audit objectives, audit procedures, and examples of common audit deficiencies.

21ST CENTURY PROGRAM

764

A. 21st Century Activities and Costs

1. Audit Objective

Determine whether the CBO expended federal funds only for allowable activities and costs.

2. Audit Procedures

- a. Ascertain whether program activities carried out with 21st Century funds were authorized by ESEA, Title IV, Part B, Section 4205, and the approved grant application.
- b. Determine whether claimed costs were allowable in accordance with the applicable federal cost principles cited at Title 34, CFR, Part 74.27.
- c. Verify that administrative (direct and indirect) costs did not exceed 15 percent of the annual total grant award amount; i.e., no less than 85 percent of funding was allocated for direct services to students (*EC* sections 8483.9(b) and (c)):
 - 1) Verify that direct administrative costs (e.g., collection and maintenance of records) directly benefitted the program charged.
 - 2) Verify that indirect costs were part of administrative costs and did not exceed a school district's current CDE-approved indirect cost rate, or 5 percent, whichever is less (*EC* Section 8483.9(a)). Indirect costs should consist of expenditures for administrative activities that are necessary for general operations, but that cannot be tied to a particular program. To find a county's CDE-approved indirect cost rate, visit the Web site at <http://www.cde.ca.gov/fg/ac/ic/> and click on the rates under the section entitled "School District, County Office, and Joint Powers Agency Rates."
- d. Verify that funds were not used for capital outlays such as real property, construction (includes structural alterations, but excludes minor remodeling), or renovation (Title 34, CFR, Part 76.533).

B. 21st Century Cash Management

1. Audit Objective

Determine whether the CBO followed procedures to administer and safeguard funds received from the CDE.

21ST CENTURY PROGRAM

764

2. Audit Procedure

Identify, evaluate, and test procedures established to administer and safeguard funds and to account for and report interest earned (Title 34, CFR, Part 74.21).

C. 21st Century Equipment

1. Audit Objective

Determine whether the CBO adequately safeguarded, maintained, and accounted for equipment purchased with federal funds.

2. Audit Procedures

For equipment acquired with federal funds (Title 34, CFR, Part 74.34), determine whether the CBO:

- a. Maintained accurate equipment records that included prescribed information.
- b. Tagged the equipment to identify it as purchased with federal funds.
- c. Performed a physical inventory and reconciled it with equipment records at least once every two years.
- d. Had a control system in place with adequate safeguards to prevent loss, damage, or theft of the equipment.
- e. Implemented adequate maintenance procedures to keep the equipment in good condition.
- f. Disposed of unneeded equipment according to federal requirements.

D. 21st Century Matching and Level of Effort

1. Audit Objective

Determine whether the minimum amount or percentage of contributions or matching funds was provided, specified service or expenditure levels were maintained, and minimum or maximum limits for specified purposes or types of participants were met.

2. Audit Procedures (ESEA Title IV, Part B, Section 4204(d) and Title 34, CFR, Part 74.23)

21ST CENTURY PROGRAM

764

a. Matching

- 1) Perform tests to verify that the required matching contributions were met.
- 2) Determine sources of matching contributions and verify they were from an allowable source.
- 3) Corroborate through tests that the values placed on in-kind contributions were determined in accordance with applicable cost principles and program requirements.

b. Level of Effort – Maintenance of Effort

- 1) Perform tests to verify that the required level of effort was met.
- 2) Verify that only allowable categories of expenditures or other effort indicators (e.g., hours, number of people served) were included in the computation.
- 3) Ascertain that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared.

c. Supplement not Supplant

- 1) Determine whether the organization used federal funds to provide services which the organization otherwise was required to make available under other federal, state, or local law.
- 2) Ascertain whether the organization used federal funds to provide services which were provided with nonfederal funds in the prior year.

3. Example of Deficiency

The organization replaced (supplanted) a prior year's local program with funding from the current federal program. The program was renamed, but it provided the same services.

E. 21st Century Procurement

1. Audit Objective

21ST CENTURY PROGRAM

764

Determine whether the CBO established and followed procedures for the procurement of supplies and other expendable property, equipment, and other services with federal funds.

2. Audit Procedures

Determine whether procedures used for procurement adhered to federal procurement standards at Title 34, CFR, parts 74.40 through 74.48, and whether the CBO adequately:

- a. Evaluated requisitions for procurement of goods and services to ensure unnecessary items were not purchased.
- b. Solicited bids or estimates that clearly established all requirements that the bidder or offeror should fulfill.
- c. Evaluated bids or estimates (e.g., analyzed comparative prices and quality) to ensure that procurement transactions were conducted in a manner to provide open and free competition to the maximum extent practical.
- d. Selected the lowest bid or estimate that was responsive to the solicitation requirements.
- e. Maintained appropriate procurement records and a system of contract administration to ensure the supplier's conformance with the terms, conditions, and specifications of the agreement for the provision of goods and services.

F. 21st Century Program Income

1. Audit Objective

Determine whether the CBO established and followed procedures for the effective control of program income (if any).

2. Audit Procedures (Title 34, CFR, Part 74.24)

- a. Determine whether the CBO correctly recorded and documented all program income.
- b. Verify that the CBO used program income to further eligible program objectives, or to finance the non-federal share of the program.

21ST CENTURY PROGRAM

764

G. 21st Century Reporting

1. Audit Objective

Determine whether required reports include all activity of the reporting period, are supported by applicable accounting or performance records, and are accurately and fairly presented in accordance with program requirements.

2. Audit Procedures

EC, Section 8484.8(b)(4) indicates that grantees shall be required to submit quarterly expenditure reports. Section 8484.8(e)(5) requires semiannual attendance data; similarly, Section 8484(a)(1) requires school day attendance on an annual basis, and program attendance.

Grants are either “core” or “direct.” Core grants are funded based on student attendance. Direct grants are not dependent upon attendance for funding. Therefore, program applications for core grants require that grantees submit quarterly attendance reports.

- a. Select a representative sample of attendance reports for selected grants.
- b. Determine whether the grantee followed instructions for completing selected attendance reports.
- c. Verify whether attendance was recorded accurately.
- d. Grantees are to submit annual and final closeout expenditure reports that show federal amounts in six budget categories. Verify that (1) expenditures are reported accurately and in the correct categories, and (2) reports agree with the accounting records that support the financial statements.

3. Example of Deficiency

The organization overstated 21st Century Program student attendance by (a) claiming days of attendance for students without maintaining the required documentation to support the attendance, and (b) claiming reimbursement for the same students under multiple programs (*EC*, Section 8484.8(b)(3) and program assurances). The CBO had to repay \$15,600 to the CDE.

Chapter 700 – Auditing Compliance with Program Requirements
Quick Reference Guide

GENERAL REFERENCES

California Department of Education (CDE): <http://www.cde.ca.gov>

CDE Audit Guide and Resources: <http://www.cde.ca.gov/fg/au/pm>

California Education Code:

<http://www.leginfo.ca.gov/cgi-bin/calawquery?codesection=edc&codebody=&hits=20>

California Code of Regulations:

<http://www.calregs.com/linkedslice/default.asp?SP=CCR-1000&Action=Welcome>

California School Accounting Manual: <http://www.cde.ca.gov/fg/ac/sa/>

Code of Federal Regulations:

<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=%2Findex.tpl>

Education Department General Administration Regulations (34 CFR Parts 74-86):

<http://www.ed.gov/policy/fund/reg/edgarReg/edgar.html>

U. S. Office of Management and Budget (OMB) Circulars

- OMB Circular Listing: <http://www.whitehouse.gov/omb/circulars/index.html>
- A-21, Cost Principles for Educational Institutions:
http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html
- A-87, Cost Principles for State, Local, and Indian Tribal Governments:
http://www.whitehouse.gov/omb/circulars/a087/a87_2004.html
- A-102, Grants and Cooperative Agreements with State and Local Governments:
<http://www.whitehouse.gov/omb/circulars/a102/a102.html>
- A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations:
<http://www.whitehouse.gov/omb/circulars/a110/a110.html>
- A-122, Cost Principles for Non-Profit Organizations:
http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html
- A-133, Audits of States, Local Governments, and Non-Profit Organizations:
<http://www.whitehouse.gov/omb/circulars/a133/a133.html>
- March 200X Compliance Supplement – Below OMB Circular A-133, listed by year:
<http://www.whitehouse.gov/omb/circulars/index.html>

Catalog of Federal Domestic Assistance: <http://www.cfda.gov/>

Chapter 700 – Auditing Compliance with Program Requirements
Quick Reference Guide

PROGRAMS

CHILD CARE AND DEVELOPMENT (CD) PROGRAMS

- Programs: <http://www.cde.ca.gov/sp/cd/op/cdprograms.asp>
- Fiscal Information: <http://www.cde.ca.gov/fq/aa/cd/>
- Management Bulletins: <http://www.cde.ca.gov/sp/cd/ci/allmbs.asp>

NUTRITION PROGRAMS

- Programs: <http://www.cde.ca.gov/fq/aa/nt/>
- Reimbursement Rates, Eligibility Scales and Funding: <http://www.cde.ca.gov/ls/nu/rs/>
- U. S. Department of Agriculture, Food & Nutrition Service: <http://www.fns.usda.gov/fns/>
- Management Bulletins: <http://www.cde.ca.gov/ls/nu/sn/mb.asp>

ADULT EDUCATION (AE) PROGRAMS

- Programs: <http://www.cde.ca.gov/sp/ae/>
- AE & Family Literacy Act, CA State Plan: <http://www.cde.ca.gov/sp/ae/ir/documents/stateplan10.doc>
- WIA, Title II Program Reapplication Guidelines and Requirements: <http://www.cde.ca.gov/sp/ae/fq/>
- Adult Education & Family Literacy Act of 1998: <http://www.ed.gov/policy/adulted/leg/legis.html>
- Comprehensive Adult Student Assessment System: <https://www.casas.org/home/index.cfm>

NO CHILD LEFT BEHIND PROGRAMS

No Child Left Behind Act of 2001: <http://www.ed.gov/policy/elsec/leg/esea02/107-110.pdf>

William F. Goodling Even Start Family Literacy Programs

- Overview and Resources: <http://www.cde.ca.gov/sp/cd/op/evenstart.asp>
- Program Requirements: <http://www.ed.gov/policy/elsec/leg/esea02/pg6.html>
- Management Bulletin 09-06: <http://www.cde.ca.gov/sp/cd/ci/mb0906.asp>

21st Century Community Learning Centers

- Overview and Resources: <http://www.cde.ca.gov/ls/ba/cp/>
- Program Requirements: <http://www.ed.gov/policy/elsec/leg/esea02/pg55.html>

Chapter 700 – Auditing Compliance with Program Requirements
Quick Reference Guide

STANDARDS

U. S. Government Accountability Office – *Government Auditing Standards*:
<http://www.gao.gov/govaud/ybk01.htm>

American Institute of Certified Public Accountants (AICPA)

- AICPA Auditing Standards:
http://www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Authoritative+Standards/auditing_standards.htm
- AICPA Peer Review Program: <http://www.aicpa.org/members/div/practmon/index.htm>
- Sample Request for Proposal Letter for CPA Services:
http://www.aicpa.org/audcommctr/toolkitsnpo/SampleRFP_for_CPA_Services.htm

California Board of Accountancy

- How to Select a CPA: <http://www.dca.ca.gov/cba/consumers/slectcpa>
- License Status Lookup: <http://dca.ca.gov/cba/lookup.shtml>

Financial Accounting Standards Board: <http://www.fasb.org/st/>

Governmental Accounting Standards Board: <http://www.gasb.org/>

Chapter 700 – Auditing Compliance with Program Requirements
Cost Allocation Guidance

When costs are allocated to more than one program, the costs must be assigned to the programs using allocation bases that accurately measure the benefits provided to each program. The following cost allocation guidance supplements the cost allocation compliance audit procedures described in sections 718.B and 718.C.

A. Direct and Indirect Costs

Costs claimed for reimbursement in CDE programs may be classified as direct costs or indirect costs (if indirect costs are permitted), depending on the number and composition of programs operated by an organization. Direct costs provide measurable, direct benefits to a particular program. Indirect costs are organization-wide general management costs that cannot be readily assigned to one specific program or one specific line item within a program.

1. Direct Costs

Generally, if an organization operates one program, all costs are direct costs of that program. However, if an organization operates more than one program, direct costs must be shared among the programs in proportion to the benefits received by each program. For example, salaries and fringe benefits must be allocated by using individual employee time sheets that report the actual time employees spend in each program each day. The shared direct costs of rent and associated utilities, maintenance, and insurance are typically allocated by using the square footage of building space occupied by each program according to floor plans and/or room measurements. Training costs for staff are typically allocated in proportion to the actual time spent in the programs on which they work. Legal fees and audit costs are typically allocated in proportion to direct hours charged to each program, based on invoices or engagement letters. Other cost allocation methods may be applied, provided they accurately measure the benefits provided to each program or activity.

2. General and Administrative (G&A) Costs

G&A costs (e.g., accounting services, human resources, information technology, and administrative office receptionist) may be allocated among multiple programs as either shared direct costs, or indirect costs.

a. Shared Direct Costs

If an organization operates similar types of programs, for example, center-based child development (CD) programs, it could elect to allocate G&A costs as shared direct costs, using the respective number of children enrolled in each program and length of time in class.

Chapter 700 – Auditing Compliance with Program Requirements
Cost Allocation Guidance

b. Indirect Costs

If an organization operates dissimilar programs or activities (e.g., center-based programs, plus resource and referral programs or non-CD programs), then the allocation of G&A costs as shared costs may be impractical. The organization then may allocate G&A costs as indirect costs. If an organization elects to claim indirect costs, it must have a current indirect cost allocation plan on file (e.g., in its main accounting office). The plan should be approved by the board of directors (not-for-profits), or other appropriate governing body (local governments). Note that when the *FT&C* for CD contracts permit claiming indirect costs, the organization's indirect cost rate may not exceed eight percent times the sum of (1) the direct costs reported on fiscal reports in object codes 1000 through 5000, and (2) any provider payments (*FT&C*, Section V.B; and the Greenbook section on Reporting Expenses – Indirect Costs).

B. Documentation of Rationale and Methodology

Regardless of the method adopted for allocating direct and/or indirect costs, the rationale and methodology must be objective, reliable, and adequately explained and documented each fiscal year. All claimed costs must be supported in accounting records and by invoices and other appropriate documents.

C. Examples of Cost Allocation Bases

The most appropriate cost allocation base will depend on the circumstances. The examples of cost allocation bases presented below and other allocation bases applicable to assigning costs are appropriate if they accurately measure the benefits provided to each program or activity.

Costs to be Allocated	Allocation Base	Documentation
Rent, Utilities Maintenance Insurance	Square footage	Room measurements Floor plans
Salaries Benefits	Employee hours worked on each program	Time Sheets
Legal Fees Audits	Direct hours charged	Invoices
Training	Staff trained	Invoices Training records
Human Resources Information Technology Accounting	Number of children enrolled	Attendance reports for Child Development, or Nutrition Programs

Chapter 700 – Auditing Compliance with Program Requirements
Cost Allocation Guidance

D. *California School Accounting Manual (CSAM)*

In the *FT&C* for child development programs, Section VI.A states that contractors shall follow the accounting procedures specified in the most recent edition of the *CSAM* and report expenditures on an accrual basis. While the *CSAM* applies mostly to schools, its principles can be used by other organizations when determining how to allocate direct and indirect costs. The *CSAM* provides cost allocation guidance in Procedures 910 and 915, based in part on federal cost principles.

1. Procedure 910, Program Cost Accounting

This procedure contains primarily school-oriented accounting procedures. Its discussion of direct-charged and allocated costs may be helpful on a conceptual level. For specific guidance, see the *FT&C* for CD programs in which Section VI.E addresses, for example, time sheets for multi-funded employees. Note that the majority of operating costs of CDE center-based programs are payroll costs. Together, the *CSAM* and the *FT&C* provide that all employees must maintain time sheets, which are sometimes referred to as personnel activity reports. For local governments, each time sheet must be signed by the individual employee. For a not-for-profit organization, each time sheet must be signed by the individual employee, or a responsible supervisory official having first-hand knowledge of the activities performed by the employee. For federal programs (e.g., Nutrition, Adult Education, and No Child Left Behind), refer to the appropriate cost principles (see Section 706), Attachment B, Paragraph 8, entitled *Compensation for personal services*, for additional information on documentation required for employees who work on single and multiple activities.

a. Employees Performing Only Direct Cost Activities

If an employee is engaged in direct cost activities that are funded by multiple programs, at least one of which is a CDE program, the employee's time sheet must report the actual amount of time spent in each program or activity per day.

b. Employees Performing Only Indirect Cost Activities

If an employee is engaged only in indirect cost activities and all of the employee's time is charged to an indirect cost pool, then the employee would not need a detailed time sheet to identify time spent on individual activities.

c. Employees Performing Both Direct and Indirect Cost Activities

If an employee is engaged in both direct and indirect cost activities, and at least one direct cost activity is a CDE program, then the employee's time

Chapter 700 – Auditing Compliance with Program Requirements
Cost Allocation Guidance

sheet must report the actual amount of time spent in each program or activity per day.

2. Procedure 915, Indirect Cost Rate

This procedure states that indirect costs are those costs of general management that are organization-wide. General management costs consist of expenditures for administrative activities necessary for the general operation of the organization (e.g., accounting, budgeting, payroll preparation, personnel management, purchasing, and centralized data processing). Indirect costs are distributed to programs using an *indirect cost rate*.

The *CSAM* Procedure 915 states that an indirect cost rate is determined by dividing an organization's indirect costs by the majority of its other expenditures, referred to as base costs. The *CSAM* explains how to calculate the components of an indirect cost rate, including a carry-forward adjustment that is an after-the-fact correction for the difference between the indirect cost rate approved for use in a given year and the actual percentage (amount) of indirect costs incurred in that year.

Subject to meeting CD requirements for an indirect cost rate (Paragraph A.2.b), organizations with federal programs must follow specific rules when categorizing expenditures as indirect costs. See the appropriate Office of Management and Budget (OMB) Circular on Cost Principles, identified in Section G, below.

E. Cognizant Agencies for Approving Indirect Cost Rates for Federal Programs

A cognizant agency is an agency (usually federal) that has been assigned responsibilities over one or more federal programs. The OMB publishes a list of cognizant agency assignments applicable to some state agencies, cities, and counties. The cognizant agency for governmental units not on that list and for non-profit organizations is the agency that provides the most grant funds directly to the entity. The United States Department of Health & Human Services (HHS) is the cognizant agency for all state-wide central service cost allocation plans and public assistance cost allocation plans. The Department of the Interior is the cognizant agency for all Indian tribal governments. For hospitals, the HHS serves as the main cognizant agency. An organization with a cognizant agency must submit an annual formal indirect cost rate proposal to the HHS' Division of Cost Allocation (DCA) for approval.

However, the HHS-DCA does not approve indirect cost rate proposals for a local governmental unit when the HHS' funding is passed through a state. The primary grantee recipient is responsible for negotiating the sub-recipient's indirect cost rate, and monitoring the costs.

Chapter 700 – Auditing Compliance with Program Requirements
Cost Allocation Guidance

F. CDE Technical Assistance

The CDE's Audits and Investigations Division (A&I) reviews annual financial and compliance audits submitted by contractors, and performs limited scope reviews of selected CDE programs. Consequently, the A&I does not provide detailed recommendations for developing an organization's cost allocation plan, which later could become the subject of the A&I's review. The A&I must maintain its independence under *Government Auditing Standards*, as issued by the Comptroller General of the United States. However, in addition to the general guidance offered above, Section G, below, provides several resources applicable to cost allocation. Note in particular that the federal resource, the HHS-DCA's Web site on Submission Requirements, provides examples such as a *Sample Indirect Cost Proposal Format for Nonprofit Organizations*.

G. Cost Allocation Resources

The OMB Circular A-133, *Compliance Supplement*, Part 3, summarizes provisions of cost principles applicable to allocating direct and indirect costs. In addition, reference additional state and federal resources:

State:

California Code of Regulations:

- Title 5, Section 18013(m), Definition of Indirect Cost Allocation Plan
- Title 5, Section 18034(k), Reimbursable Indirect Cost Rate per Approved Plan
<http://www.calregs.com>

California School Accounting Manual, 2008 Edition:

- Procedure 910, Program Cost Accounting
- Procedure 915, Indirect Cost Rate
<http://www.cde.ca.gov/fg/ac/sa/documents/csam2008complete.pdf>

Funding Terms and Conditions for Child Development Contracts:

- Section V.B, Indirect Costs
- Section VI.A, General Provisions
- Section VI.E, General Record Keeping Requirements
<http://www.cde.ca.gov/fg/aa/cd/index.asp>

Chapter 700 – Auditing Compliance with Program Requirements
Cost Allocation Guidance

Federal:

Sample Indirect Cost Proposal Format for Nonprofit Organizations, The United States Department of Health & Human Services, Program Support Center, Division of Cost Allocation, <http://www.rates.psc.gov>

OMB Circulars on Cost Principles,
<http://www.whitehouse.gov/omb/circulars/index.html>:

- The OMB Circular A-21, *Cost Principles for **Educational Institutions*** (even if part of a state or local government) [now codified in federal regulations at 2 CFR Part 220]
- The OMB Circular A-87, *Cost Principles for **State, Local and Indian Tribal Governments*** [now codified in federal regulations at Title 2, CFR, Part 225]
- The OMB Circular A-122, *Cost Principles for **Non-Profit Organizations*** [now codified in federal regulations at Title 2, CFR, Part 230]

Other cost principles applicable to CDE programs, as established by Title 34, *Code of Federal Regulations*, Part 74.27, Education Department General Administrative Regulations (EDGAR):

- Title 45, CFR, Part 74, Appendix E, *Cost Principles for **Hospitals***, <http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=65ec96d25e90eb4e7d647bfe3740bcf7&rqn=div9&view=text&node=45:1.0.1.1.35.6.11.3.11&idno=45>
- Title 48, CFR, Part 31, *Contracts with Commercial Organizations: **Commercial For-Profit Organizations other than Hospitals and Educational Institutions***, http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=/ecfrbrowse/Title48/48cfr31_main_02.tpl

APPENDIX A
ILLUSTRATIVE CONTRACTOR AUDIT
(ADDRESSES SINGLE AUDIT REPORTING REQUIREMENTS)

EXAMPLE ENTITY
FISCAL YEAR ENDED JUNE 30, 2017

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Table of Contents

Independent Auditor's Report	4
Financial Statements	
Statement of Financial Position	6
Statement of Activities	7
Statement of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information	17
Schedule of Federal and State Awards	18
Combining Statement of Activities	19
Schedule of Expenditures by State Categories	20
Reconciliation of CDE and GAAP Expense Reporting	21
Schedule of Reimbursable Equipment Expenditures	22
Schedule of Reimbursable Expenditures for Renovations and Repairs	23
Schedule of Reimbursable Administrative Costs	24
Schedule of Reimbursable Start-Up Expenses	25
Audited Attendance and Fiscal Reports/Audited Fiscal Reports	26
CCTR6789 – Child Development Program	27
CPRE6789 – State Preschool	31
CAPP6789 – Alternative Payment	34
CRPM6789 – Renovation and Repair Project (Multi-Year)	36
CCTR6799 – Child Development Program (Subcontract)	38
Audited Reserve Account Activity Report	42

Illustrative Contractor/Single Audit Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	43
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance With OMB Circular A-133	45
Schedule of Findings and Questioned Costs	47
Status of Corrective Action on Prior Year Findings	52
Internal Control Communication Letter	53
Management Letter	55

[Auditor's Letterhead]

Independent Auditor's Report

To Management and the Board of Directors of Example Entity

We have audited the accompanying statement of financial position of Example Entity (a California not-for-profit corporation) as of June 30, 2017, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Example Entity's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Example Entity as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated October 15, 2017, on our consideration of Example Entity's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information in pages 17 through 54 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing

procedures applied in the audit of the basic financial statements and in conformity with the *CDE Audit Guide* issued by the California Department of Education. In our opinion, the accompanying supplementary information is fairly presented in all material respects in relation to the basic financial statements as a whole.

[If a Single Audit] The accompanying *Schedule of Expenditures of Federal and Other Governmental Awards* is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information was prepared according to the accounting principles used for the basic financial statements and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Firm's signature
City, State
October 15, 2017

EXAMPLE ENTITY
Statement of Financial Position
June 30, 2017

Assets

Cash and cash equivalents	\$407,500
Government grants and contracts receivable (Note 5)	660,000
Other receivables	45,000
Deposits and prepaid expenses	25,500
Current assets	1,138,000
 Property and equipment, net (Note 3)	 1,326,432
 Total assets	 \$2,464,432

Liabilities and Net Assets

Accounts payable	\$415,149
Accrued expenses and other current liabilities	578,477
Unearned revenue	32,500
Obligations under capital lease (Note 11)	10,303
Mortgage payable (Note 12)	8,877
Child development reserve (Note 14)	60,500
Current liabilities	1,105,806
 Obligations under capital lease, non-current portion (Note 11)	 92,724
Mortgage payable, non-current portion (Note 12)	762,483
Other long-term liabilities	200,000
 Total liabilities	 2,161,013
 Net assets, unrestricted	 96,315
Net assets, temporarily restricted (Note 4)	207,104
Total net assets	303,419
 Total liabilities and net assets	 \$2,464,432

The accompanying notes are an integral part of these financial statements.

EXAMPLE ENTITY
Statement of Activities
Year Ended June 30, 2017

Changes in Unrestricted Net Assets

Unrestricted support	
Government contracts	\$11,596,700
Contributions and other income	361,829
Grantee contributions, in-kind income	120,000
Total unrestricted support, net	<u>12,078,529</u>
Other unrestricted revenues	
Transfers from CD reserves	45,000
Family fees for certified children	142,750
Family fees for non-certified children	47,752
Interest	13,485
Total unrestricted revenues and support, net of direct benefits	<u>12,327,516</u>
 Expenses	
Provider payments	\$2,430,000
Salaries	5,006,780
Employee benefits	1,206,996
Books and supplies	765,166
Rents and leases	27,417
Other operating expenses	1,711,059
Building repairs and maintenance	29,345
Equipment expense	7,150
Depreciation	98,312
Grantee contributions, in kind expenditures	120,000
General and administrative	854,872
Total expenses	<u>12,257,097</u>
Increase in unrestricted net assets	<u>70,419</u>
 Changes in Temporarily Restricted Net Assets	
Fixed assets purchased with state funds	31,500
Net assets released from restrictions	-
Increase in temporarily restricted net assets	<u>31,500</u>
 Increase in Net Assets	101,919
Net Assets at Beginning of Year	201,500
Net Assets at End of Year	<u><u>\$303,419</u></u>

The accompanying notes are an integral part of these financial statements.

EXAMPLE ENTITY
Statement of Cash Flows
Year Ended June 30, 2017

Cash Flows from Operating Activities

Increase in net assets		\$ 101,919
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	\$98,312	
(Increase) decrease in government grants and contracts receivable	(25,630)	
(Increase) decrease in other receivables	(47,370)	
(Increase) decrease in deposits and prepaid expenses	(8,661)	
Increase (decrease) in accounts payable	(118,864)	
Increase (decrease) in accrued expenses and other liabilities	(12,308)	
Increase (decrease) in unearned revenue	(4,500)	
Increase (decrease) in CD reserve account	(24,750)	
Increase (decrease) in other debt	(7,985)	
Total adjustments		<u>(151,756)</u>
Net cash provided (used) by operating activities		(49,837)

Cash Flows from Investing Activities

(Additions) to construction in progress		\$0
(Purchases) of fixed assets	(52,500)	
Net cash provided (used) by investing activities		(52,500)

Cash Flows from Financing Activities

Increase (decrease) in funds due CDE		(\$7,536)
Increase (repayment) of capital lease obligation	(15,000)	
Increase (repayment) of mortgage note	(8,877)	
Net cash provided (used) by financing activities		<u>(31,413)</u>

Net Decrease in Cash and Cash Equivalents

(133,750)

Cash and Cash Equivalents at Beginning of Year

541,250

Cash and Cash Equivalents at End of Year

\$ 407,500

The accompanying notes are an integral part of these financial statements.

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements**Note 1. Nature of Organization**

Example Entity was incorporated as a not-for-profit corporation in 1998 to establish and maintain child care and development programs. The organization is publicly and privately funded through agreements with the California Department of Education, Bountiful County Office of Education Head Start Program, private donations, and child care and development fees. Government contracts accounted for 94 percent of the organization's funding for the current fiscal year ended June 30, 2017.

Note 2. Significant Accounting Policies

- a. *Basis of Accounting.* The financial statements of Example Entity reflect the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted, based on the existence or absence of donor-imposed restrictions. When a donor restriction expires (stipulated time restriction ends, or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. All of Example Entity's net assets were considered to be unrestricted at June 30, 2017, except fixed assets purchased with state funds (Note 4) were considered to be temporarily restricted net assets.
- b. *Cash and Cash Equivalents.* For purposes of the statement of cash flows, Example Entity considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.
- c. *Property and Equipment.* Example Entity records purchased property and equipment with extended useful lives at cost, and donated fixed assets at fair market value on the date received. Property and equipment funded by CDE are expensed on supplementary reports during the contract period. Depreciation may not be claimed for reimbursement under child development contracts for assets donated or purchased with public funds.

The organization capitalizes and depreciates all fixed assets in accordance with its policies and reports the transactions on the financial statements in conformity with accounting principles generally

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements

accepted in the United States of America. The organization's capitalization threshold is \$5,000. Depreciation is recorded over the useful lives of the fixed assets using the straight-line method. Depreciation expense for the year ended June 30, 2017, was \$98,312, including depreciation on fixed assets purchased with government funds (Note 4). Also, see Note 2.i.

- d. *Support and Revenue.* Example Entity receives a major portion of its revenues in the form of federal and state grants or contracts for program operations. To ensure observance of limitations and restrictions placed on the use of resources available to Example Entity, the accounts are maintained in accordance with the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established in accordance with their nature and purpose. Separate accounts are maintained for each fund.
- e. *Contributions.* All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded as contributions when received at the net present value of the amounts expected to be collected. If they are expected to be received after one year, they are discounted using a risk-free rate applicable to the years in which the promises are received. At June 30, 2017, no contributions were recorded as a receivable.
- f. *Donations-In-Kind and Contributed Services.* Donations-In-Kind used in the programs administered by Example Entity are recorded at fair value at the date of donation as unrestricted support and revenue unless the use of such contributed assets is limited by donor-imposed restrictions.

Contributed services are reported as contributions at their fair value if such services create or enhance nonfinancial assets, or would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills. Contributed services, reflected in the accompanying financial statement, include space donation.

- g. *Income Taxes.* Example Entity is a tax exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code.

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements

- h. *Use of Estimates.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- i. *Reconciliation of CDE and GAAP Expense Reporting.* The supplementary *Combining Statement of Activities* and basic financial statements present financial data in conformity with GAAP. The other supplementary financial data presented in the audit, including data in the *Schedule of Expenditures by State Categories*, present expenditures according to CDE reporting requirements. However, reporting differences arise because CDE contract funds must be expended during the contract period (usually one year). For example, program amounts that are capitalized and depreciated over multiple years under GAAP are expensed in the contract period under CDE requirements. To address such reporting differences, the audit report includes a *Reconciliation of CDE and GAAP Expense Reporting*.

Note 3. Property and Equipment

At June 30, 2017, property and equipment consisted of the following:

Balance, Beginning of Year	\$1,708,420
Additions	52,500
Retirements	0
Balance, End of Year	1,760,920
Less Accumulated Depreciation	<u>(434,488)</u>
Net Fixed Asset Balance, End of Year	<u>\$1,326,432</u>

Note 4. Fixed Assets Purchased with State Funds

The California Department of Education (CDE) retains a reversionary interest in certain assets purchased with CDE contract funds. The title to such assets vests in Example Entity only for the period of time during which Example Entity has a contract with CDE. At June 30, 2017, such assets consisted of the following:

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements

Buildings & Improvements	\$173,000
Furniture and Equipment	153,130
Less: Accumulated Depreciation	<u>(119,026)</u>
Net Balance (Included in Net Balance at Note 3)	<u>\$207,104</u>

Note 5. Government Grants and Contracts Receivable

U.S Department of Health and Human Services	\$461,550
California Department of Education	<u>198,450</u>
Total	<u>\$660,000</u>

Note 6. Related Party Transaction

Example Entity has entered into a seven-year lease through May 2023 with an affiliate. The annual fair market rental is \$144,000, based on an independent professional appraisal. The affiliate charges Example Entity \$24,000 annually; the \$120,000 balance is considered an In-Kind Contribution. (See Note 10.)

Note 7. Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

Example Entity maintains cash balances in financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing or non-interest-bearing accounts. At June 30, 2017, all bank balances were insured. In addition to bank accounts, the Entity has funds in money market accounts, the balance of which as of June 30, 2017 was \$250,000. These funds are covered by the Securities Investor Protection Corporation up to \$500,000, but are not insured by FDIC.

Note 8. Line of Credit

Example Entity obtained a line of credit from Big Bank in the amount of \$300,000. The line carries an interest rate of 1 percent over the bank's index rate. No loan balance was outstanding at June 30, 2017.

Note 9. Accrued Vacation and Sick Leave

Accumulated unpaid employee vacation benefits are recognized as accrued liabilities of Example Entity. The value of accumulated vacation at June 30, 2017 is \$39,000. However, accumulated employee sick leave benefits are not recognized as liabilities of Example Entity because

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements

payment of sick leave benefits is not probable and such benefits are recorded as expenses in the period when sick leave is taken.

Note 10. Commitments Under Operating Lease

Example Entity leases space from an affiliate (Note 6) under a seven-year lease through May 2023. The annual fair market rental is \$144,000. The lessor charges Example Entity \$24,000 annually. The balance of \$120,000 is considered an In-Kind Contribution from the affiliate.

Monthly payments are \$2,000 and total rent paid for the year ended June 30, 2017 was \$24,000. Allocation of rental cost is based on square feet of space utilized.

Minimum future lease payments under non-cancelable leases for each of the next five years in aggregate for the year ending June 30:

2018	\$24,000
2019	24,000
2020	24,000
2021	24,000
2022	<u>24,000</u>
	<u>\$120,000</u>

Note 11. Capital Lease Commitment

Example Entity received \$150,000 from the California Department of Education (CDE) during the prior fiscal year to acquire a portable classroom building to be used in its general center program, under CDE Contract No. CPRE6789. Example Entity also entered into a non-cancelable lease-to-own agreement with the CDE, under Contract No. GREVnnn1, The CDE retains title to the facility until all lease payments are fully paid. The lease contains termination clauses in the event of non-renewal of the center contract, failure to make required payments, or a repayment of the balance due. The term of the interest-free lease is 10 years. The facility has been capitalized at \$103,027. Amortization of the asset held under capital lease commenced on February 1, 2017.

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements

Minimum lease payments, on an annual basis, for the year ending June 30, are as follows:

2018	\$15,000
2019	15,000
2020	15,000
2021	15,000
2022-27	<u>90,000</u>
Total minimum lease payments	150,000
Less: Amount representing interest	<u>46,973</u>
Present value of minimum lease payments	<u>\$103,027</u>
Current portion	\$10,303
Noncurrent portion	<u>92,724</u>
	<u>\$103,027</u>

Note 12. Mortgage Payable

Example Entity had a mortgage payable to Big Bank at 6.80 percent per annum in the amount of \$771,360 as of June 30, 2017. The mortgage, with monthly payments of \$8,877, is due June 15, 2027. Annual debt service requirements to maturity are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>
2018	\$55,787	\$50,811
2019	59,701	46,762
2020	63,889	42,429
2021	68,373	37,792
2022-27	<u>523,610</u>	<u>115,522</u>
	<u>\$771,360</u>	<u>\$293,316</u>
Current portion	\$ 8,877	
Noncurrent portion	<u>762,483</u>	
	<u>\$771,360</u>	

Note 13. Cost Allocation Plan

Example Entity updates its cost allocation plan annually and obtains approval from its Board of Directors. Its indirect cost allocation plan is on file in the organization's main accounting office. Example Entity allocates its costs based on the relative benefits received by the programs or activities. Accordingly, the organization applies several methods for allocating costs:

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements

Direct Costs. Costs identified 100 percent to a specific program are charged directly to that program.

Shared Direct Costs. Costs identified to specific multiple programs or activities are shared between the programs benefitting.

- Payroll costs are allocated using individual time sheets that report the actual time spent by employees in each program each day.
- Rent and associated utilities, maintenance, and insurance are allocated using the square footage of building space occupied by each program, according to floor plans and/or room measurements.
- Training costs for staff members are allocated to programs in proportion to the actual time employees spent working in those programs.
- Legal fees and audit costs are allocated in proportion to the direct hours charged to each program, based on invoices or engagement letters.

Indirect Costs. Costs that benefit the operations of the entire organization, which cannot be identified to specific programs or activities, are allocated according to an indirect cost allocation plan.

Note 14. Reserve Account

Child development contractors with the California Department of Education (CDE) are allowed, with prior CDE approval, to maintain a reserve account from earned but unexpended child development contract funds for three types of programs: Center Based, Resource and Referral, and Alternative Payment. Transfers from a reserve account are considered restricted income for child development programs, but may be applied to any of the contracts that are eligible to contribute to that particular program type.

Example Entity maintains a reserve account for Center Based contracts, and funds are deposited into an interest bearing account. The reserve account balance at June 30, 2017 was \$60,500, which is recorded as an asset in the cash account. Also, upon termination of all child development center-based contracts with CDE, Example Entity would have to return the reserve funds to CDE, so the reserve account is recorded as a liability (deferred revenue) in the amount of \$60,500.

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements

The reserve account balance of \$60,500 includes interest of \$4,250 that the bank paid on the account balances during the year ended June 30, 2017.

Note 15. Contingencies

Example Entity has received federal and other governmental funds for specific purposes that are subject to review and audit by the funding agencies. Such audits could generate expenditure disallowances or refunds payable under terms of the agency contracts. No material amounts are currently payable. Loss of governmental support would have a significant impact on Example Entity's ability to provide its program services.

Note 16. Subcontract Agreement

Example Entity entered into a subcontract agreement to operate a general center child care program for ABC Company for the fiscal year ended June 30, 2017. ABC has a direct contract (CCTR6799) with CDE under Vendor No. X345. Example Entity received from ABC Company \$1,150,000 of CDE contract funds and \$42,000 of supplemental contributions to enhance the operation of the program.

To further assist the program, Example Entity provided \$110,000 under its Child Care Food Program Agreement No. 19 6789 1-A with CDE. The \$110,000 of revenue was reported as restricted income, and the \$110,000 of related expenses was reported as reimbursable expenses under the claim for reimbursement.

Note 17. Nutrition Programs

The contractor had two nutrition agreements with CDE for Child and Adult Care Food Programs, as reported in the *Schedule of Expenditures of Federal and Other Governmental Awards*. However, no nutrition audit report schedules are included in the audit because (1) the audit disclosed no nutrition overpayments, underpayments, or program findings; (2) the contractor did not request reimbursement of audit costs; and (3) the audit is not a program-specific nutrition audit.

EXAMPLE ENTITY

Supplementary Information

For the Year Ended June 30, 2017

EXAMPLE ENTITY
Schedule of Federal and State Awards
Year Ended June 30, 2017

<u>Grantor</u>	<u>Federal CFDA Number</u>	<u>Grantor's Number</u>	<u>Award Amount</u>			<u>Expenditures</u>	
			<u>Federal</u>	<u>State</u>	<u>Total</u>	<u>Federal</u>	<u>State</u>
U.S. Department of Agriculture							
Passed through California Department of Education:							
Child and Adult Care Food Program	10.558	19 6789-1A	\$358,800	\$22,800	\$381,600	\$358,800	\$22,800
Child and Adult Care Food Program	10.558	19 6799-2J	256,950	28,550	285,500	256,950	28,550
			615,750	51,350	667,100	615,750	51,350
U.S. Department of Health & Human Services:							
County Office of Education Head Start	93.600	C-6789:96:97	4,840,500		4,840,500	4,840,500	
Passed through California Department of Education:							
Child Care and Development Fund (CCDF):							
CCDF General Center Child Care	93.575/93.596	CCTR6789	960,000	120,000	1,080,000	886,012	120,000
CCDF Alternative Payment	93.575/93.596	CAPP6789	1,810,000	1,100,000	2,910,000	1,790,523	1,100,000
CCDF Renovation and Repair Project	93.575/93.596	CRPM6789		25,600	25,600		0
			2,770,000	1,245,600	4,015,600	2,676,535	1,220,000
	(a)	CCTR6799	1,120,000	30,000	1,150,000	1,119,545	30,000
California Department of Education - State Preschool		CPRE6789		955,000	955,000		955,000
Total Federal and State			\$9,346,250	\$2,281,950	\$11,628,200	\$9,252,330	\$2,256,350

(a) Example Entity operated this contract for ABC Company, which has a direct contract with CDE under Vendor No. X345.

See accompanying auditors' reports and notes to financial statements.

Note 1. Basis of Presentation

The accompanying *Schedule of Federal and State Awards* includes the expenditures of federal awards of Example Entity; these expenditures are presented on the accrual basis of accounting. The federal information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

[Note to Auditor: Most CDE food program agreements, and many CDE child development programs have both federal and state funding, as shown above.]

EXAMPLE ENTITY
Combining Statement of Activities
Year Ended June 30, 2017

	CCTR6789	CPRE6789	CAPP6789	CRPM6789	Subcontract CCTR6799	Total CDE CD Contracts	Non-CDE Programs	Total
Revenue and Support								
Government contracts:								
	\$1,080,000	\$1,110,100	\$2,910,000	\$25,600	\$1,150,000	\$6,275,700	\$4,685,400	\$10,961,100
Child care programs	146,000	125,600			110,000	381,600		381,600
Child Care Food Program, #19 6789-1							285,500	285,500
Child Care Food Program, #19 6799-2J	1,226,000	1,235,700	2,910,000	25,600	1,260,000	6,657,300	4,970,900	11,628,200
Subtotal government contracts	24,000					24,000	96,000	120,000
Unrestricted contributions and other Income	2,500	100,000	17,500		42,000	162,000	199,829	361,829
Transfers from CD reserves	45,000					45,000		45,000
Family fees - certified children	31,000		96,000		15,750	142,750		142,750
Family fees - noncertified children	47,752					47,752		47,752
Interest income	1,500	1,560	1,675		600	5,335	8,150	13,485
Total revenue and support	1,377,752	1,337,260	3,025,175	25,600	1,318,350	7,084,137	5,274,879	12,359,016
Expenses								
Provider payments	\$0	\$0	\$2,430,000	\$0	\$0	\$2,430,000	\$0	\$2,430,000
Salaries	715,830	575,040	196,800		700,010	2,187,680	2,819,100	5,006,780
Employee benefits	178,956	140,640	51,000		175,000	545,596	661,400	1,206,996
Books and supplies	124,224	85,840	1,792		121,400	333,256	431,910	765,166
Rents and leases	6,432	20,985				27,417		27,417
Other operating expenses	158,358	377,365	101,736		223,380	860,839	850,220	1,711,059
Building repairs and maintenance	12,145	1,600				13,745	15,600	29,345
Equipment expense	3,000	4,150				7,150		7,150
Depreciation	51,202	30,314				81,516	16,796	98,312
In-kind contributions expense	24,000					24,000	96,000	120,000
General, administrative, and indirect	97,500	95,900	221,422		97,250	512,072	342,800	854,872
Total expenses	1,371,647	1,331,834	3,002,750	-	1,317,040	7,023,271	5,233,826	12,257,097
Change in Net Assets	6,105	5,426	22,425	25,600	1,310	60,866	41,053	101,919

See accompanying auditors' reports and notes to financial statements.

EXAMPLE ENTITY
Schedule of Expenditures by State Categories
Year Ended June 30, 2017

Expenditures						Subcontract	Total CDE
	CCTR6789	CPRE6789	CAPP6789	CRPM6789	CCTR6799	CD Contracts	
Direct payments to providers	\$0	\$0	\$2,430,000		\$0		\$2,430,000
1000 Certificated salaries	257,015	199,190	23,300		262,000		741,505
2000 Classified salaries	434,590	375,850	173,500		438,010		1,421,950
3000 Employee benefits	172,900	140,640	51,000		175,000		539,540
4000 Books and supplies	119,500	91,590	1,792		121,400		334,282
5000 Services and other operating expenses	200,740	327,050	88,187		186,480		802,457
6100/6200 Other approved capital outlay		32,000		25,600			57,600
6400 New equipment							-
6500 Replacement equipment							-
Depreciation on assets not purchased with public funds	27,911	19,274					47,185
Start-up expenses - service level exemption (a)	52,200						52,200
Indirect costs (b)	97,500	90,200	221,422		94,150		503,272
Total expenses claimed for reimbursement (c)	\$1,362,356	\$1,275,794	\$2,989,201	\$25,600	\$1,277,040		\$6,929,991
Total supplemental expenses	2,500	100,000	15,049		42,000		159,549
Total Expenditures	<u>\$1,364,856</u>	<u>\$1,375,794</u>	<u>\$3,004,250</u>	<u>\$25,600</u>	<u>\$1,319,040</u>		<u>\$7,089,540</u>

Notes:

- (a) Start-Up Expenses include \$34,700 of expenditures in Objects 1000-5000. See Schedule of Reimbursable Start-Up Expenses.
- (b) A written indirect cost allocation plan for the current fiscal year, approved by the Board of Directors, is on file in the main accounting office of Example Entity.
- (c) Any food expenses have been allocated to the appropriate contracts.

We have examined the claims filed for reimbursement and the original records supporting the transactions recorded under the contracts listed above to an extent considered necessary to assure ourselves that the amounts claimed by the contractor were eligible for reimbursement, reasonable, necessary, and adequately supported, according to governing laws, regulations, and contract provisions.

See accompanying auditors' reports and notes to financial statements.

EXAMPLE ENTITY
Reconciliation of CDE and GAAP Expense Reporting
Year Ended June 30, 2017

Expenses	CCTR6789	CPRE6789	CAPP6789	CRPM6789	Subcontract CCTR6799	Total CDE CD Contracts
Schedule of Expenditures by State Categories (CDE)	\$1,364,856	\$1,375,794	\$3,004,250	\$25,600	\$1,319,040	\$7,089,540
Adjustments to Reconcile Differences in Reporting:						
Depreciation on assets funded by CDE-CD ¹	\$23,291	\$11,040				\$34,331
Capitalized renovation and repairs expensed on AUD forms	(6,000)	(17,000)		(25,600)		(48,600)
Capitalized lease expensed on AUD form		(15,000)				
Capitalized carpeting expensed on supplemental AUD form		(21,000)				
Capitalized equipment expensed on AUD form	(8,500)					(8,500)
Audit fees expensed on AUD forms (in advance of services)	(2,000)	(2,000)	(1,500)		(2,000)	(7,500)
Subtotal	<u>6,791</u>	<u>(43,960)</u>	<u>(1,500)</u>	<u>(25,600)</u>	<u>(2,000)</u>	<u>(66,269)</u>
Combining Statement of Activities (GAAP)	<u>\$1,371,647</u>	<u>\$1,331,834</u>	<u>\$3,002,750</u>	<u>\$0</u>	<u>\$1,317,040</u>	<u>\$7,023,271</u>

¹ The amounts shown here were not reported on *Audited Attendance and Fiscal Reports/Audited Fiscal Reports* (AUD forms).

[Note to Auditor: See sections 335.D and 340.F.]

See accompanying auditors' reports and notes to financial statements.

EXAMPLE ENTITY
Schedule of Reimbursable Equipment Expenditures
Year Ended June 30, 2017

	Start-Up					Subcontract	TOTAL
	CCTR6789	CCTR6789	CPRE6789	CAPP6789	CRPM6789	CCTR6799	
<u>Unit Cost Under \$7,500 Per Item</u>							
Photocopier	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Computer Workstation							-
FAX Machine							-
Subtotal	0	0	0	0	0	0	0
<u>Unit Cost Over \$7,500 Per Item With Prior Written Approval</u>							
Computer System	\$0	\$8,500	\$0	\$0	\$0	\$0	\$8,500
Subtotal	0	8,500	0	0	0	0	8,500
<u>Unit Cost Over \$7,500 Per Item Without Prior Approval</u>							
None	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	0	0	0	0	0	0	0
Total	\$0	\$8,500	\$0	\$0	\$0	\$0	\$8,500

Note: Example Entity's capitalization threshold is \$5,000, or more.

See accompanying auditors' reports and notes to financial statements.

EXAMPLE ENTITY
Schedule of Reimbursable Expenditures for Renovations and Repairs
Year Ended June 30, 2017

	Start-Up					Subcontract	TOTAL
	CCTR6789	CCTR6789	CPRE6789	CAPP6789	CRPM6789	CCTR6799	
<u>Unit Cost Under \$10,000 Per Item</u>							
Roof Repairs	\$0	\$6,000	\$0	\$0	\$0	\$0	\$6,000
Remodeling Cabinets			5,500				5,500
Other					25,600		25,600
Subtotal	0	6,000	5,500	0	25,600	0	37,100
<u>Unit Cost \$10,000 or More Per Item</u>							
<u>With Prior Written Approval</u>							
Renovate Kitchen	\$0	\$0	\$11,500	\$0	\$0	\$0	\$11,500
Subtotal	0	0	11,500	0	0	0	11,500
<u>Unit Cost \$10,000 or More Per Item</u>							
<u>Without Prior Approval</u>							
None	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	0	0	0	0	0	0	0
Total	\$0	\$6,000	\$17,000	\$0	\$25,600	\$0	\$48,600

Note: Example Entity's capitalization threshold is \$5,000 or more.

See accompanying auditors' reports and notes to financial statements.

EXAMPLE ENTITY
Schedule of Reimbursable Administrative Costs
Year Ended June 30, 2017

Reimbursable Administrative Costs	CCTR6789	CPRE6789	CAPP6789	CRPM6789	Subcontract CCTR6799	Total CDE
Salaries	\$14,855	\$15,795	\$102,670		\$36,209	\$169,529
Employee benefits	8,850	8,899	26,168		13,113	57,030
Books and supplies	14,599	12,292	9,553		15,400	51,844
Services and other operating expense	12,740	9,040	88,187		16,128	126,095
Depreciation on non-CDE-funded assets used in program	27,911	19,274				47,185
Indirect costs	97,500	90,200	221,422		94,150	503,272
Total	<u>\$176,455</u>	<u>\$155,500</u>	<u>\$448,000</u>	<u>\$0</u>	<u>\$175,000</u>	<u>\$954,955</u>

See accompanying auditors' reports and notes to financial statements.

EXAMPLE ENTITY
Schedule of Reimbursable Start-Up¹ Expenses
Year Ended June 30, 2017

Reimbursable Start-Up Expenses	CCTR6789	CPRE6789	CAPP6789	Total
1000 Certificated salaries	\$22,250	\$0	\$0	\$22,250
2000 Classified salaries	1,975			1,975
3000 Employee benefits	6,056			6,056
4000 Books and supplies	1,724			1,724
5000 Services/other operating expenses	5,695			5,695
Subtotal ²	37,700	0	0	37,700
6100/6200 Other approved capital outlay ³	\$6,000	\$0	\$0	\$6,000
6400 New equipment ⁴	8,500			8,500
6500 Replace equipment	0			0
Total ⁵	\$52,200	\$0	\$0	\$52,200

See accompanying auditors' reports and notes to financial statements.

[Notes to Auditor:

¹ Part-year Migrant Programs also may contain close-down expenses that would be reported in the same manner as start-up expenses.

² These amounts are included in the indirect cost base on AUD forms for contracts indicated (if indirect costs are applicable).

³ Amounts agree with the amounts reported on the *Schedule of Reimbursable Expenditures for Renovations and Repairs*. The total of \$6,000 was capitalized.

⁴ Agrees with amount(s) on the *Combining Schedule of Reimbursable Equipment Expenditures*. Of the \$11,500 of new equipment, \$8,500 was capitalized. The other \$3,000 is reported under line item 5000.

⁵ Amounts agree with total Start-Up Expenses reported on AUD forms for contracts indicated.]

EXAMPLE ENTITY

**Audited Attendance and Fiscal Reports
And Audited Fiscal Reports**

For the Year Ended June 30, 2017

AUDITED ATTENDANCE AND FISCAL REPORT

for Child Development Programs

Agency Name: Example Entity Vendor No. Z999

Fiscal Year Ended: June 30, 2017 Contract No. CCTR6789

Independent Auditor's Name: Public Accounting Firm LLP, CPAs

SECTION I - CERTIFIED CHILDREN DAYS OF ENROLLMENT	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Infants (up to 18 months)</i>					
Full-time-plus	-		-	2.006	-
Full-time	649		649	1.700	1,103
Three-quarters-time	95		95	1.275	121
One-half-time	-		-	0.935	-
<i>FCCH Infants (up to 18 months)</i>					
Full-time plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
One-half-time	-		-	0.770	-
<i>Toddlers (18 up to 36 months)</i>					
Full-time-plus	410		410	1.652	677
Full-time	4,850		4,850	1.400	6,790
Three-quarters-time	690		690	1.050	725
On-half-time	-		-	0.770	-
<i>Three Years and Older</i>					
Full-time-plus	710		710	1.180	838
Full-time	15,980		15,980	1.000	15,980
Three-quarters-time	825		825	0.750	619
One-half-time	-		-	0.550	-
<i>Exceptional Needs</i>					
Full-time-plus	-		-	1.416	-
Full-time	-		-	1.200	-
Three-quarters-time	-		-	0.900	-
One-half-time	-		-	0.660	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus	210		210	1.298	273
Full-time	1,680	(150)	1,530	1.100	1,683
Three-quarters-time	410		410	0.825	338
One-half-time	-		-	0.605	-
<i>At Risk of Abuse or Neglect</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>Severely Disabled</i>					
Full-time-plus	-		-	1.770	-
Full-time	-		-	1.500	-
Three-quarters-time	-		-	1.125	-
One-half-time	-		-	0.825	-
TOTAL DAYS OF ENROLLMENT	26,509	(150)	26,359		29,147
DAYS OF OPERATION	249	-	249		
DAYS OF ATTENDANCE	26,350	(150)	26,200		

NO NONCERTIFIED CHILDREN - Check this box and continue to Section III if no noncertified children were enrolled in the program

Comments - If necessary, attach additional sheets to explain adjustments:

Independent auditor adjusted the days of enrollment and the corresponding attendance that had been overstated by 150 days.

**AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: Example Entity Vendor No. Z999

Fiscal Year Ended: June 30, 2017 Contract No. CCTR6789

SECTION II - NONCERTIFIED CHILDREN Report all children who were not certified, but who were served at the same sites as certified children. DAYS OF ENROLLMENT	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Infants (up to 18 months)</i>					
Full-time-plus	-		-	2.006	-
Full-time	149		149	1.700	253
Three-quarters-time	-		-	1.275	-
One-half-time	-		-	0.935	-
<i>FCCH Infants (up to 18 months)</i>					
Full-time plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
One-half-time	-		-	0.770	-
<i>Toddlers (18 up to 36 months)</i>					
Full-time-plus	145		145	1.652	240
Full-time	104		104	1.400	146
Three-quarters-time	40		40	1.050	42
On-half-time	-		-	0.770	-
<i>Three Years and Older</i>					
Full-time-plus	276		276	1.180	326
Full-time	445	200	645	1.000	645
Three-quarters-time	-		-	0.750	-
One-half-time	-		-	0.550	-
<i>Exceptional Needs</i>					
Full-time-plus	-		-	1.416	-
Full-time	-		-	1.200	-
Three-quarters-time	-		-	0.900	-
One-half-time	-		-	0.660	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>At Risk of Abuse or Neglect</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>Severely Disabled</i>					
Full-time-plus	-		-	1.770	-
Full-time	-		-	1.500	-
Three-quarters-time	-		-	1.125	-
One-half-time	-		-	0.825	-
TOTAL DAYS OF ENROLLMENT	1,159	200	1,359		1,651

Comments - If necessary, attach additional sheets to explain adjustments:

Independent auditor adjusted days of enrollment, which had been understated by 200 days.

**AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: Example Entity Vendor No. Z999

Fiscal Year End: June 30, 2017 Contract No. CCTR6789

SECTION III - REVENUE	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
RESTRICTED INCOME			
Child Nutrition Programs	\$146,000	\$0	\$146,000
County Maintenance of Effort (EC § 8279)			0
Uncashed Checks to Providers			0
Other (Specify): In-kind rent	24,000		24,000
Subtotal Restricted Income	\$170,000	\$0	\$170,000
Transfer from Reserve Contract # CCTR6789	45,000		45,000
Transfer from Reserve Contract #			0
Family Fees for Certified Children Contract # CCTR6789	31,000		31,000
Family Fees for Certified Children Contract #			0
Interest on Apportionments Contract # CCTR6789	1,500		1,500
Interest on Apportionments Contract #			0
UNRESTRICTED INCOME			
Family Fees for Noncertified Children	47,752		47,752
Other (Specify):			0
TOTAL REVENUE	\$295,252	\$0	\$295,252

SECTION IV - EXPENSES			
REIMBURSABLE EXPENSES			
<i>Direct Payments to Providers (FCCH Only)</i>	\$0	\$0	\$0
1000 Certificated Salaries	279,265	(22,250)	257,015
2000 Classified Salaries	436,565	(1,975)	434,590
3000 Employee Benefits	178,956	(6,056)	172,900
4000 Books and Supplies	124,224	(1,724)	122,500
5000 Services and Other Operating Expenses	205,935	(8,195)	197,740
6100/6200 Other Approved Capital Outlay	6,000	(6,000)	0
6400 New Equipment (<i>program-related</i>)	8,500	(8,500)	0
6500 Replacement Equipment (<i>program-related</i>)			0
Depreciation or Use Allowance	27,911		27,911
Start-Up Expenses (service level exemption)		52,200	52,200
Indirect Cost Rate Percentage: 8.00%	97,500		97,500
FOR CDE-A&I USE ONLY:			
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$1,364,856	(\$2,500)	\$1,362,356
TOTAL ADMINISTRATIVE COST (included in section IV above)	\$176,455	\$0	\$176,455

Independent Auditor's Assurances on Agency's compliance with Contract Funding Terms and Conditions and Program Requirements of the California Department of Education, Child Development Division:

Eligibility, enrollment, and attendance records are being maintained as required (check YES or NO):

- YES
 NO - Explain any discrepancies.

Reimbursable expenses claimed above are eligible for reimbursement, reasonable, necessary, and adequately supported (check YES or NO):

- YES
 NO - Explain any discrepancies.

COMMENTS - If necessary, attach additional sheets to explain adjustments:

Enrollment records were not maintained correctly, causing over- and under-reporting (see Comments, pp.1-2). Questioned \$2,500 of nonreimbursable program-related entertainment expenses (FT&C, Section V.G.3). Reclassified \$52,200 of expenses to Start-Up Expenses (see Schedule of Reimbursable Start-Up Expenses). Also, see Findings 2017-1 and 2017-4.

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit next page if there are no supplemental revenues or expenses to report.

**AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: Example Entity Vendor No. Z999

Fiscal Year End: June 30, 2017 Contract No. CCTR6789

SECTION V - SUPPLEMENTAL REVENUE	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
Enhancement Funding	\$0	\$0	\$0
Other (Specify): Donations - general		2,500	2,500
			0
			0
TOTAL SUPPLEMENTAL REVENUE	\$0	\$2,500	\$2,500

SECTION VI - SUPPLEMENTAL EXPENSES

EXPENSES RELATED TO SUPPLEMENTAL REVENUE			
<i>Direct Payments to Providers (FCCH Only)</i>	\$0	\$0	\$0
1000 Certificated Salaries			0
2000 Classified Salaries			0
3000 Employee Benefits			0
4000 Books and Supplies			0
5000 Services and Other Operating Expenses			0
6000 Equipment/Other Capital Outlay			0
Depreciation or Use Allowance			0
Indirect Costs			0
NONREIMBURSABLE EXPENSES			
6100-6500 Nonreimbursable Capital Outlay			0
Other: Entertainment Expenses		2,500	2,500
Other (Specify):			0
			0
TOTAL SUPPLEMENTAL EXPENSES	\$0	\$2,500	\$2,500

COMMENTS - If necessary, attach additional sheets to explain adjustments:

Independent auditor reclassified nonreimbursable program-related entertainment expenses claimed under reimbursable expenses in error.

AUDITED ATTENDANCE AND FISCAL REPORT
for State Preschool and Part-Day Prekindergarten Family Literacy Programs

Agency Name: Example Entity Vendor No. Z999

Fiscal Year End: June 30, 2017 Contract No. CPRE6789

Independent Auditor's Name: Public Accounting Firm LLP, CPAs

SECTION I - CERTIFIED CHILDREN	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
Days of Enrollment	45,420	-	45,420
Days of Operation	175	-	175
Days of Attendance	46,400	(1,000)	45,400

SECTION II - NONCERTIFIED CHILDREN

No Noncertified Children

Check this box and continue to the Assurances section if no noncertified children are enrolled in the program

Noncertified Children	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
Days of Enrollment for Noncertified Children	-	-	-

Independent Auditor's Assurances on Agency's compliance with Contract Funding Terms and Conditions and Program Requirements of the California Department of Education, Child Development Division:

Eligibility, enrollment, and attendance records are being maintained as required (check YES or NO):

YES

NO - Explain any discrepancies.

Reimbursable expenses claimed on page 2 are eligible for reimbursement, reasonable, necessary, and adequately supported (check YES or NO):

YES

NO - Explain any discrepancies on page 2.

COMMENTS - If necessary, attach additional sheets to explain adjustments:

Independent auditor adjusted days of attendance, based on review of attendance sign-in/sign-out sheets. Also, attendance must not exceed days of enrollment.

AUDITED ATTENDANCE AND FISCAL REPORT

for State Preschool and Part-Day Prekindergarten Family Literacy Programs

Agency Name: Example Entity Vendor No. Z999

Fiscal Year End: June 30, 2017 Contract No. CPRE6789

SECTION III - REVENUE	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
RESTRICTED INCOME			
Child Nutrition Programs	\$125,600	\$0	\$125,600
County Maintenance of Effort (EC § 8279)			0
Other (Specify):			0
			0
Subtotal Restricted Income	\$125,600	\$0	\$125,600
Transfer from Reserve Contract #			0
Transfer from Reserve Contract #			0
Interest on Apportionments Contract # CPRE6789	1,560		1,560
Interest on Apportionments Contract #			0
UNRESTRICTED INCOME			
Family Fees for Noncertified Children			0
Head Start Program (EC § 8235(b))	155,100		155,100
Other (Specify):			0
TOTAL REVENUE	\$282,260	\$0	\$282,260

SECTION IV - EXPENSES			
REIMBURSABLE EXPENSES			
1000 Certificated Salaries	\$199,190	\$0	\$199,190
2000 Classified Salaries	399,450	(23,600)	375,850
3000 Employee Benefits	146,540	(5,900)	140,640
4000 Books and Supplies	91,590		91,590
5000 Services and Other Operating Expenses	327,050		327,050
6100/6200 Other Approved Capital Outlay	32,000		32,000
6400 New Equipment (program-related)	0		0
6500 Replacement Equipment (program-related)	0		0
Depreciation or Use Allowance	19,274		19,274
Start-Up Expenses (service level exemption)			0
Indirect Cost Rate Percentage: 7.90%	90,200		90,200
FOR CDE-A&I USE ONLY:			
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$1,305,294	(\$29,500)	\$1,275,794
TOTAL ADMINISTRATIVE COST (included in section IV above)	\$155,500	\$0	\$155,500

COMMENTS - If necessary, attach additional sheets to explain adjustments:
 Independent auditor reclassified \$29,500 of salaries related to a non-CDE program that had been claimed in error. See Finding 2017-2. Also, line item 6100/6200 Other Approved Capital Outlay includes \$15,000 of capital lease payments (see Note 11 to Financial Statements).

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit next page if there are no supplemental revenues or expenses to report.

AUDITED ATTENDANCE AND FISCAL REPORT

for State Preschool and Part-Day Prekindergarten Family Literacy Programs

Agency Name: Example Entity Vendor No. Z999

Fiscal Year End: June 30, 2017 Contract No. CPRE6789

SECTION V - SUPPLEMENTAL REVENUE	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
Enhancement Funding	\$0	\$0	\$0
Contributions	100,000		100,000
Head Start			0
Other (Specify):			0
TOTAL SUPPLEMENTAL REVENUE	\$100,000	\$0	\$100,000

SECTION VI - SUPPLEMENTAL EXPENSES

EXPENSES RELATED TO SUPPLEMENTAL REVENUE			
1000 Certificated Salaries	\$0	\$0	\$0
2000 Classified Salaries			0
3000 Employee Benefits			0
4000 Books and Supplies			0
5000 Services and Other Operating Expenses	73,300		73,300
6000 Equipment/Other Capital Outlay	21,000		21,000
Depreciation or Use Allowance			0
Indirect Costs	5,700		5,700
NONREIMBURSABLE EXPENSES			
6100-6500 Nonreimbursable Capital Outlay			0
Other (Specify):			0
			0
			0
TOTAL SUPPLEMENTAL EXPENSES	\$100,000	\$0	\$100,000

COMMENTS - If necessary, attach additional sheets to explain adjustments:

Example Entity recarpeted classrooms on July 1, 2016, using \$21,000 of non-CDE funds. The carpeting cost of \$21,000 is being depreciated over an expected 7-year life with depreciation charged to the program as a reimbursable depreciation expense of \$3,000 annually. Thus, the \$3,000 of depreciation is included in the total depreciation expense on page two of this AUD form.

AUDITED FISCAL REPORT
for Alternative Payment or Family Child Care Home Programs

Agency Name: Example Entity Vendor No. Z999

Fiscal Year End: June 30, 2017 Contract No. CAPP6789

Independent Auditor's Name: Public Accounting Firm LLP, CPAs

SECTION I - REVENUE	Column A	Column B	Column C
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
RESTRICTED INCOME			
Child Nutrition Programs	\$0	\$0	\$0
County Maintenance of Effort (EC § 8279)			0
Uncashed Checks to Providers			0
Other (Specify):			0
Subtotal Restricted Income	\$0	\$0	\$0
TRANSFER FROM RESERVE <i>(Alternative Payment Only)</i>			0
FAMILY FEES FOR CERTIFIED CHILDREN	96,000		96,000
INTEREST ON APPORTIONMENT PAYMENTS	1,675		1,675
UNRESTRICTED INCOME			
Other (Specify):			0
TOTAL REVENUE	\$97,675	\$0	\$97,675

SECTION II - EXPENSES

REIMBURSABLE EXPENSES			
<i>Direct Payments to Providers</i>	\$2,430,000	\$0	\$2,430,000
1000 Certificated Salaries	23,300		23,300
2000 Classified Salaries	173,500		173,500
3000 Employee Benefits	51,000		51,000
4000 Books and Supplies	1,792		1,792
5000 Services and Other Operating Expenses	102,437	(14,250)	88,187
6100/6200 Other Approved Capital Outlay			0
6400 New Equipment <i>(program-related)</i>			0
6500 Replacement Equipment <i>(program-related)</i>			0
Depreciation or Use Allowance			0
Start-Up Expenses (service level exemption)			0
Indirect Cost Rate Percentage: 0.00%	222,221	(799)	221,422
FOR CDE-A&I USE ONLY:			
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$3,004,250	(\$15,049)	\$2,989,201
TOTAL ADMINISTRATIVE COST <i>(included in Section II above)</i>	\$448,000	\$0	\$448,000
DAYS OF OPERATION	240	-	240

COMMENTS - If necessary, attach additional sheets to explain adjustments:

Independent auditor questioned \$14,250 of operating expenses that were not supported by invoices or other appropriate documentation (FT&C, Section VI.E), and adjusted excess indirect costs that would have exceeded the maximum cap of 8 percent (FT&C, Section V.B). See Finding 2017-3.

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit next page if there are no supplemental revenues or expenses to report.

**AUDITED ATTENDANCE AND FISCAL REPORT
for Alternative Payment or Family Child Care Home Programs**

Agency Name: Example Entity Vendor No. Z999

Fiscal Year End: June 30, 2017 Contract No. CAPP6789

SECTION III - SUPPLEMENTAL REVENUE	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
Enhancement Funding	\$0	\$0	\$0
Other (Specify): Contributions		17,500	17,500
Other (Specify):			0
			0
TOTAL SUPPLEMENTAL REVENUE	\$0	\$17,500	\$17,500

SECTION IV - SUPPLEMENTAL EXPENSES

EXPENSES RELATED TO SUPPLEMENTAL REVENUE			
<i>Direct Payments to Providers</i>	\$0	\$0	\$0
1000 Certificated Salaries			0
2000 Classified Salaries			0
3000 Employee Benefits			0
4000 Books and Supplies			0
5000 Services and Other Operating Expenses			0
6000 Equipment/Other Capital Outlay			0
Depreciation or Use Allowance			0
Indirect Costs			0
NONREIMBURSABLE EXPENSES			
6100-6500 Nonreimbursable Capital Outlay			0
Other (Specify): Operating Expenses		14,250	14,250
Other (Specify): Indirect Costs		799	799
			0
TOTAL SUPPLEMENTAL EXPENSES	\$0	\$15,049	\$15,049

COMMENTS - If necessary, attach additional sheets to explain adjustments:

Independent auditor reclassified \$14,250 of unsupported program expenses claimed under reimbursable program expenses and \$799 of indirect costs.

**AUDITED FISCAL REPORT
for Child Development Support Contracts**

Agency Name: Example Entity Vendor No. Z999

Fiscal Year End: June 30, 2017 Contract No. CRPM6789

Multi-Year Contract? (Check No or Enter Contract Period): No: or Period: July 1, 2016 - June 30, 2017

Independent Auditor's Name: Public Accounting Firm LLP, CPAs

SECTION I - REVENUE	COLUMN A1	COLUMN A2	COLUMN B	COLUMN C
	Cumulative		Audit Adjustment Increase Or (Decrease)	Cumulative Fiscal Year Per Audit
	All Prior Years Per Last Audit	Current Fiscal Year Per Agency		
RESTRICTED INCOME				
Match Requirement	\$0	\$0	\$0	\$0
County Maintenance of Effort (EC § 8279)				0
Other (Specify): CDE contract payments (advances)		25,600	(25,600)	0
				0
Subtotal Restricted Income	\$0	\$25,600	(\$25,600)	\$0
INTEREST ON APPORTIONMENT PAYMENTS				0
UNRESTRICTED INCOME				
Other (Specify):				0
				0
TOTAL REVENUE	\$0	\$25,600	(\$25,600)	\$0

SECTION II - EXPENSES

REIMBURSABLE EXPENSES				
1000 Certificated Salaries	\$0	\$0	\$0	\$0
2000 Classified Salaries				0
3000 Employee Benefits				0
4000 Books and Supplies				0
5000 Services and Other Operating Expenses				0
6100/6200 Other Approved Capital Outlay	24,400	25,600		50,000
6400 New Equipment (<i>program-related</i>)				0
6500 Replacement Equipment (<i>program-related</i>)				0
Depreciation or Use Allowance				0
Indirect Cost Rate Percentage: 0.00%				0
FOR CDE-A&I USE ONLY:				
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$24,400	\$25,600	\$0	\$50,000
TOTAL ADMINISTRATIVE COST (included in section II above)	\$0	\$0	\$0	\$0

COMMENTS - If necessary, attach additional sheets to explain adjustments:

The independent auditor deleted CDE contract payments, which are not to be reported on AUD forms.

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit next page if there are no supplemental revenues or expenses to report.

**AUDITED FISCAL REPORT
for Child Development Support Contracts**

Agency Name: Example Entity Vendor No. Z999

Fiscal Year End: June 30, 2017 Contract No. CRPM6789

Multi-Year Contract? (Check No or Enter Contract Period): No: or Period: July 1, 2016 - June 30, 2017

SECTION III - SUPPLEMENTAL REVENUE	COLUMN A1	COLUMN A2	COLUMN B	COLUMN C
	Cumulative		Audit Adjustment Increase Or (Decrease)	Cumulative Fiscal Year Per Audit
	All Prior Years Per Last Audit	Current Fiscal Year Per Agency		
Enhancement Funding	\$0	\$0	\$0	\$0
Other (Specify):				0
Other (Specify):				0
				0
TOTAL SUPPLEMENTAL REVENUE	\$0	\$0	\$0	\$0

SECTION IV - SUPPLEMENTAL EXPENSES

EXPENSES RELATED TO SUPPLEMENTAL REVENUE				
1000 Certificated Salaries	\$0	\$0	\$0	\$0
2000 Classified Salaries				0
3000 Employee Benefits				0
4000 Books and Supplies				0
5000 Services and Other Operating Expenses				0
6000 Equipment/Other Capital Outlay				0
Depreciation or Use Allowance				0
Indirect Costs				0
NONREIMBURSABLE EXPENSES				
6100-6500 Nonreimbursable Capital Outlay				0
Other (Specify):				0
				0
TOTAL SUPPLEMENTAL EXPENSES	\$0	\$0	\$0	\$0

COMMENTS - If necessary, attach additional sheets to explain adjustments:

DO NOT SUBMIT THIS PAGE - THERE ARE NO SUPPLEMENTAL REVENUE OR EXPENSES TO REPORT, AS INDICATED IN BOX CHECKED ON PAGE 1 OF THIS FORM.

AUDITED ATTENDANCE AND FISCAL REPORT

for Child Development Programs

Agency Name: Example Entity, Subcontractor for ABC Company Vendor No. Z999

Fiscal Year Ended: June 30, 2017 Contract No. CCTR6799

Independent Auditor's Name: Public Accounting Firm LLP, CPAs

SECTION I - CERTIFIED CHILDREN DAYS OF ENROLLMENT	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Infants (up to 18 months)</i>					
Full-time-plus	-		-	2.006	-
Full-time	856		856	1.700	1,455
Three-quarters-time	190		190	1.275	242
One-half-time	-		-	0.935	-
<i>FCCH Infants (up to 18 months)</i>					
Full-time plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
One-half-time	-		-	0.770	-
<i>Toddlers (18 up to 36 months)</i>					
Full-time-plus	820		820	1.652	1,355
Full-time	14,895		14,895	1.400	20,853
Three-quarters-time	690		690	1.050	725
On-half-time	-		-	0.770	-
<i>Three Years and Older</i>					
Full-time-plus	915		915	1.180	1,080
Full-time	4,980		4,980	1.000	4,980
Three-quarters-time	825		825	0.750	619
One-half-time	-		-	0.550	-
<i>Exceptional Needs</i>					
Full-time-plus	-		-	1.416	-
Full-time	-		-	1.200	-
Three-quarters-time	-		-	0.900	-
One-half-time	-		-	0.660	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus	210		210	1.298	273
Full-time	1,680		1,680	1.100	1,848
Three-quarters-time	632		632	0.825	521
One-half-time	-		-	0.605	-
<i>At Risk of Abuse or Neglect</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>Severely Disabled</i>					
Full-time-plus	-		-	1.770	-
Full-time	-		-	1.500	-
Three-quarters-time	-		-	1.125	-
One-half-time	-		-	0.825	-
TOTAL DAYS OF ENROLLMENT	26,693	-	26,693		33,950
DAYS OF OPERATION	249	-	249		
DAYS OF ATTENDANCE	26,693	-	26,693		

NO NONCERTIFIED CHILDREN - Check this box and continue to Section III if no noncertified children were enrolled in the program

Comments - If necessary, attach additional sheets to explain adjustments:

**AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: Example Entity, Subcontractor for ABC Company Vendor No. Z999

Fiscal Year Ended: June 30, 2017 Contract No. CCTR6799

SECTION II - NONCERTIFIED CHILDREN Report all children who were not certified, but who were served at the same sites as certified children. DAYS OF ENROLLMENT	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENTS	CUMULATIVE FISCAL YEAR PER AUDIT	ADJUSTMENT FACTOR	ADJUSTED DAYS OF ENROLLMENT PER AUDIT
<i>Infants (up to 18 months)</i>					
Full-time-plus	-		-	2.006	-
Full-time	-		-	1.700	-
Three-quarters-time	-		-	1.275	-
One-half-time	-		-	0.935	-
<i>FCCH Infants (up to 18 months)</i>					
Full-time plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
One-half-time	-		-	0.770	-
<i>Toddlers (18 up to 36 months)</i>					
Full-time-plus	-		-	1.652	-
Full-time	-		-	1.400	-
Three-quarters-time	-		-	1.050	-
On-half-time	-		-	0.770	-
<i>Three Years and Older</i>					
Full-time-plus	-		-	1.180	-
Full-time	-		-	1.000	-
Three-quarters-time	-		-	0.750	-
One-half-time	-		-	0.550	-
<i>Exceptional Needs</i>					
Full-time-plus	-		-	1.416	-
Full-time	-		-	1.200	-
Three-quarters-time	-		-	0.900	-
One-half-time	-		-	0.660	-
<i>Limited and Non-English Proficient</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>At Risk of Abuse or Neglect</i>					
Full-time-plus	-		-	1.298	-
Full-time	-		-	1.100	-
Three-quarters-time	-		-	0.825	-
One-half-time	-		-	0.605	-
<i>Severely Disabled</i>					
Full-time-plus	-		-	1.770	-
Full-time	-		-	1.500	-
Three-quarters-time	-		-	1.125	-
One-half-time	-		-	0.825	-
TOTAL DAYS OF ENROLLMENT	-	-	-		-

Comments - If necessary, attach additional sheets to explain adjustments:

DO NOT SUBMIT THIS PAGE - THERE ARE NO NONCERTIFIED CHILDREN TO REPORT, AS INDICATED IN BOX CHECKED ON PAGE 1 OF THIS FORM.

**AUDITED ATTENDANCE AND FISCAL REPORT
for Child Development Programs**

Agency Name: Example Entity, Subcontractor for ABC Company Vendor No. Z999

Fiscal Year End: June 30, 2017 Contract No. CCTR6799

SECTION III - REVENUE	COLUMN A	COLUMN B	COLUMN C
	CUMULATIVE FISCAL YEAR PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	CUMULATIVE FISCAL YEAR PER AUDIT
RESTRICTED INCOME			
Child Nutrition Programs	\$110,000	\$0	\$110,000
County Maintenance of Effort (EC § 8279)			0
Uncashed Checks to Providers			0
Other (Specify):			0
Subtotal Restricted Income	\$110,000	\$0	\$110,000
Transfer from Reserve Contract #			0
Transfer from Reserve Contract #			0
Family Fees for Certified Children Contract # CCTR6799	15,750		15,750
Family Fees for Certified Children Contract #			0
Interest on Apportionments Contract # CCTR6799	600		600
Interest on Apportionments Contract #			0
UNRESTRICTED INCOME			
Family Fees for Noncertified Children			0
Other (Specify):			0
TOTAL REVENUE	\$126,350	\$0	\$126,350

SECTION IV - EXPENSES			
REIMBURSABLE EXPENSES			
<i>Direct Payments to Providers (FCCH Only)</i>	\$0	\$0	\$0
1000 Certificated Salaries	262,000		262,000
2000 Classified Salaries	438,010		438,010
3000 Employee Benefits	175,000		175,000
4000 Books and Supplies	121,400		121,400
5000 Services and Other Operating Expenses	186,480		186,480
6100/6200 Other Approved Capital Outlay			0
6400 New Equipment (program-related)			0
6500 Replacement Equipment (program-related)			0
Depreciation or Use Allowance			0
Start-Up Expenses (service level exemption)			0
Indirect Cost Rate Percentage: 0.00%	94,150		94,150
FOR CDE-A&I USE ONLY:			
TOTAL EXPENSES CLAIMED FOR REIMBURSEMENT	\$1,277,040	\$0	\$1,277,040
TOTAL ADMINISTRATIVE COST (included in section IV above)	\$175,000	\$0	\$175,000

Independent Auditor's Assurances on Agency's compliance with Contract Funding Terms and Conditions and Program Requirements of the California Department of Education, Child Development Division:

Eligibility, enrollment, and attendance records are being maintained as required (check YES or NO):

- YES
 NO - Explain any discrepancies.

Reimbursable expenses claimed above are eligible for reimbursement, reasonable, necessary, and adequately supported (check YES or NO):

- YES
 NO - Explain any discrepancies.

COMMENTS - If necessary, attach additional sheets to explain adjustments:

Example Entity provided \$110,000 of food for this contract under CACFP Agreement No. 19 6789-1A.

NO SUPPLEMENTAL REVENUES OR EXPENSES - Check this box and omit next page if there are no supplemental revenues or expenses to report.

AUDITED RESERVE ACCOUNT ACTIVITY REPORT

Agency Name: Example Entity

Fiscal Year End: June 30, 2017 Vendor No. Z999

Independent Auditor's Name: Public Accounting Firm LLP, CPAs

RESERVE ACCOUNT TYPE (Check One):	COLUMN A	COLUMN B	COLUMN C
<input checked="" type="checkbox"/> Center Based <input type="checkbox"/> Resource and Referral <input type="checkbox"/> Alternative Payment	PER AGENCY	AUDIT ADJUSTMENT INCREASE OR (DECREASE)	PER AUDIT
Ending Balance on Last Year's AUD 9530-A	\$85,250	\$0	\$85,250
Plus Transferred to Reserve Account Based on CDFS' Calculations Reported on Last Year's Post-Audit CDFS 9530:			
Contract No. CCTR5678	10,600		10,600
Contract No. CPRE5678	5,400		5,400
Contract No.			0
Contract No.			0
Contract No.			0
Contract No.			0
Contract No.			0
Total Transferred to Reserve Account	16,000	0	16,000
Subtotal	\$101,250	\$0	\$101,250
Excess Reserve to be Billed. If Such an Amount is Reported on Last Year's Post-Audit CDFS 9530, enter it here as a Positive Amount. (Not applicable to center based reserve accounts.)			0
Ending Balance from Last Year's Post-Audit CDFS 9530	\$101,250	\$0	\$101,250
Plus Interest Earned This Year on Reserve Funds (column A must agree with Section II of this year's CDFS 9530-A)	4,250		4,250
Less Transfers from Reserve to Pay this Year's Expenses for the Following Contracts (column A must agree with Section III of this year's CDFS 9530-A; and transfer amounts must Agree with <i>Transfer from Reserve</i> amounts reported on AUD forms for respective contracts):			
Contract No. CCTR6789	45,000		45,000
Contract No.			0
Contract No.			0
Contract No.			0
Contract No.			0
Contract No.			0
Contract No.			0
Total Transferred from Reserve Account	45,000	0	45,000
Ending Balance on June 30, 2017 (Column A must agree with Section IV of this year's CDFS 9530-A)	\$60,500	\$0	\$60,500

COMMENTS - If necessary, attach additional sheets to explain adjustments:

[Note to auditor: Amounts transferred to the reserve account are based on calculations made by CDFS and would be from **prior** fiscal year contracts. However, amounts transferred from the reserve account to pay this year's expenses must be transfers to the **current** fiscal year's contracts.]

[Auditor's Letterhead]

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*

Board of Directors
Example Entity

We have audited the financial statements of Example Entity as of and for the year ended June 30, 2017, and have issued our report thereon dated October 15, 2017. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Example Entity's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over financial reporting.

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 a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are

required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2017-1, 2017-2, 2017-3, and 2017-4.

We noted certain matters that we reported to management of Example Entity in a separate letter dated October 15, 2017.

Example Entity's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit Example Entity's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Example Entity's management and Board of Directors, California Department of Education, and other affected governmental agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Public Accounting Firm LLP
Certified Public Accountants

October 15, 2017

[Note to auditor: Revised for SAS No. 115]

[Auditor's Letterhead]

**Report On Compliance with Requirements Applicable to
Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Board of Directors
Example Entity

Compliance

We have audited the compliance of Example Entity with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2017. Example Entity's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with those requirements.

In our opinion, Example Entity complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2017. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2017-1 and 2017-3.

Internal Control Over Compliance

The management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Example Entity's internal control over compliance with the

requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by an entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by an entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Example Entity's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit Example Entity's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Example Entity's management and Board of Directors, California Department of Education, and other affected awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Public Accounting Firm LLP
Certified Public Accountants
October 15, 2017

[Note to auditor: The language in this report was revised for SAS No. 112. If OMB adopts SAS No. 115, the auditor should revise language in this report accordingly.]

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2017

Section I – Summary of Auditor’s Results

<i>Financial Statements</i>		
Type of auditor’s report issued:	<i>Unqualified</i>	
Internal control over financial reporting:	YES:	NO:
• Material weakness identified?		X
• Significant deficiency identified that is not considered to be a material weakness?		None reported
Noncompliance material to financial statements noted?		X

<i>Federal Awards</i>		
Internal control over major programs:	YES:	NO:
• Material weakness identified?		X
• Significant deficiency identified that is not considered to be a material weakness?	X	
Type of auditor’s report issued on compliance for major programs:	<i>Unqualified</i>	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	X	

Identification of major programs:		
<i>CFDA Number:</i>	<i>Name of Federal Program or Cluster:</i>	
10.558	USDA – Child and Adult Care Food Program	
93.575/93.596	HHS – Child Care and Development Fund	
93.600	HHS – Head Start	
Dollar threshold used to distinguish between type A and type B programs:		\$300,000
	YES:	NO:
Auditee qualified as a low-risk auditee?	X	

Section II – Financial Statement Findings
--

Current year financial statement findings:

None

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2017

Section III – Findings and Questioned Costs for Federal and State Awards – Current Year
--

2017-1: Allowable Start-Up Expenses of \$52,200 Not Claimed

1. Program Information: CFDA No. 93.575/93.596, HHS – Child Care and Development Fund; CDE General Center Contract CCTR6789.
2. Criteria: The contract provided a service level exemption of \$52,200 prior to full enrollment, as governed by Section V.D of the Contract Funding Terms and Conditions. If the start-up expenses were incurred, then the allowable dollar amount incurred would not have to be earned through provision of services.
3. Condition: The contractor incurred \$52,200 of allowable start-up expenses that it failed to report on the appropriate line item of the Attendance and Fiscal Report (CDFS 9500) submitted to CDE for the year ended June 30, 2017.
4. Questioned Costs: \$52,200, a one-time reimbursable expense.
5. Effect and Context: Without correcting the claim, CDE would have billed the contractor an additional \$52,200. All material expenses claimed for this contract were reviewed to determine which expenses had been incurred prior to full enrollment, thereby qualifying them as start-up expenses.
6. Cause: Staff was unaware of the effect of misreporting the start-up expenses.
7. Recommendation: Train staff in program requirements, including the correct classification of start-up expenses (service level exemption).
8. Views of Responsible Officials and Planned Corrective Actions: Appropriate fiscal and program staff will be trained next month on how to report start-up expenses in accordance with the contract funding terms and conditions. Meanwhile, we have reclassified the questioned expenses to the appropriate line item for start-up expenses.

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2017

Section III – Findings and Questioned Costs for Federal and State Awards – Current Year (Continued)
--

2017-2: Payroll Costs of \$29,500 Not Supported by Required Time Sheets

1. Program Information: CDE State Preschool Contract CPRE6789 (no Federal component).
2. Criteria: Section VI.E of the Contract Funding Terms and Conditions requires time sheets that indicate the actual amount of time spent in each program per day for multi-funded employees.
3. Condition: The contractor incurred \$49,500 of payroll expenses for an employee who worked on the State Preschool Program (contract CPRE6789) and two other non-CDE programs, but did not adequately document the time spent in each program. Salary and benefits totaling \$29,500 had been charged to contract CPRE6789 without the required time sheets to support salary costs. The employee was not certain how much time he may have spent in the State Preschool Program.
4. Questioned Costs: \$29,500 of payroll comprising classified salaries of \$23,600 and benefits of \$5,900.
5. Effect and Context: The contractor claimed reimbursement from CDE for \$29,500 of nonreimbursable payroll costs. The non-reimbursable payroll expenses were found after testing 15 percent of time sheets for all employees, then by testing all time sheets for the employee in question.
6. Cause: Lack of employee training and inadequate supervisory review of employee time sheets.
7. Recommendation: Train the employee in time sheet preparation. Remind the supervisor that she must review and sign all applicable time sheets to ensure that salaries are documented appropriately.
8. Views of Responsible Officials and Planned Corrective Actions: All supervisors will receive training next month on the requirements for time sheets and that they must review and sign each one. Employees shall receive additional training in how to report time spent in multiple programs.

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2017

Section III – Findings and Questioned Costs for Federal and State Awards – Current Year (Continued)
--

2017-3: Operating Expenses of \$15,049 Not Adequately Supported

1. Program Information: CFDA No. 93.575/93.596, HHS – Child Care and Development Fund; CDE Alternative Payments Program Contract CAPP6789.
2. Criteria: Section VI.E of the Contract Funding Terms and Conditions states that claims for reimbursement shall not be paid unless there are documents to support the claims; the contractor has the burden of supporting claims for reimbursement. Also, Federal standards for financial management systems indicate that agencies must maintain effective control over, and accountability for all funds (34 CFE 74.21(a)).
3. Condition: The contractor claimed \$14,250 of operating expenses, but did not adequately document the expenditures. It disbursed funds without proper authorization and did not retain invoices or other appropriate documentation to support payments for goods and services.
4. Questioned Costs: \$15,049 is comprised of \$14,250 of direct costs and \$799 of indirect costs.
5. Effect and Context: The contractor claimed reimbursement from CDE for \$14,250 of nonreimbursable direct costs, plus associated nonreimbursable indirect costs of \$799 that exceeded the 8 percent maximum rate (after the \$14,250 reduction of expenses subject to indirect costs). All operating expense transactions of \$10,000 or more (and 15 percent of the transactions less than \$10,000) were reviewed to determine whether they had been adequately documented with invoices or other appropriate documentation to support payments for goods and services.
6. Cause: Inadequate procedures for processing purchases.
7. Recommendation: Establish a procurement function that authorizes and controls purchases from the point of requisition, to the receipt of goods and services, and eventual payment.
8. Views of Responsible Officials and Planned Corrective Actions: We now prohibit purchases without an approved purchase order, and require the retention of invoices, receiving reports, and other appropriate documentation to support all transactions.

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2017

Section III – Findings and Questioned Costs for Federal and State Awards – Current Year (Continued)
--

**2017-4: Nonreimbursable Entertainment Expenses of \$2,500 Claimed
in Error**

1. Program Information: CFDA No. 93.575/93.596, HHS – Child Care and Development Fund; CDE General Center Contract CCTR6789.
2. Criteria: Section V.G of the Contract Funding Terms and Conditions states that the costs of amusement or entertainment are not reimbursable under the contract.
3. Condition: The contractor claimed \$2,500 of entertainment costs for a staff dinner dance.
4. Questioned Costs: \$2,500.
5. Effect and Context: The contractor claimed reimbursement from CDE for \$2,500 of nonreimbursable costs. The questioned costs represent the total entertainment costs recorded by the contractor.
6. Cause: Lack of knowledge of program requirements.
7. Recommendation: Train staff in program requirements, including the contract Funding Terms and Conditions and guidance in the CDE Greenbook.
8. Views of Responsible Officials and Planned Corrective Actions: Appropriate fiscal and program staff will be trained next month on how to recognize reimbursable and non-reimbursable expenses, in accordance with the contract funding terms and conditions.

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2017

Section IV – Status of Corrective Action on Prior Year Findings

There was one finding in the prior year:

2016-1: Depreciation Claimed on Property Purchased with CDE Funds

1. Program Information: CFDA No. 93.575/93.596, HHS – Child Care and Development Fund; CDE General Center Contract CCTR5789.
2. Criteria: Section III.A of the Contract Funding Terms and Conditions indicates that depreciation or use allowance shall not be claimed on assets purchased with CDE contract funds.
3. Condition: The contractor erroneously claimed for reimbursement \$3,200 of depreciation on property purchased with CDE contract funds.
4. Questioned Costs: \$3,200, the total depreciation claimed for the current year.
5. Effect and Context: The contractor claimed reimbursement from CDE for \$3,200 of nonreimbursable costs. All depreciation claimed on CDE contracts was reviewed for adherence to program requirements.
6. Cause: Lack of knowledge of program requirements.
7. Recommendation: Train accounting staff on how to claim only allowable depreciation expense.
8. Views of Responsible Officials and Planned Corrective Actions: We plan to send our accountant to a not-for-profit accounting training course, which will address accounting for depreciation.
9. Status of Corrective Action: Example Entity's accountant completed a not-for-profit accounting training course that addressed accounting for depreciation. Also, the contract claim was reduced by \$3,200 for the depreciation expense erroneously claimed.

Auditor's Letterhead

INTERNAL CONTROL COMMUNICATION LETTER

To Management and the Board of Directors of Example Entity

In planning and performing our audit of the financial statements of Example Entity as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Example Entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated them in writing to management and those charged with governance on October 15, 2017. 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 by those charged with governance.

We consider the following deficiencies, identified during the audit and reported as findings in the *Schedule of Findings and Questioned Costs*, in aggregate, to be significant deficiencies in internal control.

1. Allowable start-up expenses of \$52,000 were not claimed due to the lack of staff training necessary to fulfill assigned functions (2017-1).
2. Payroll costs of \$29,500 were not supported by required time sheets because of inadequate design of controls to monitor staff (2017-2).
3. Operating expenses of \$15,049 were not adequately supported due to inadequate design of purchase procedures (2017-3).
4. Nonreimbursable entertainment expenses of \$2,500 were claimed in error because staff lacked knowledge of program requirements (2017-4).

This communication is intended solely for the information and use of management and the Board of Directors of Example Entity, and others within the organization, and officials of the California Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Firm's signature
City, State
October 15, 2017

Auditor's Letterhead

MANAGEMENT LETTER

To Management and the Board of Directors of Example Entity

In planning and performing our audit of the financial statements of Example Entity as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Example Entity's internal controls over financial reporting as a basis for designing our audit procedures 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 internal controls. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Our comments and suggestions regarding those matters are presented below. This letter does not affect our report dated October 15, 2017, on the financial statements of Example Entity.

Comment 1. Enrollment and attendance records for CDE contracts were not maintained adequately, or consistently reviewed by the supervisor. As a result, minor over- and under-reporting occurred on Contract No. CTR6789 and attendance was overstated on Contract No. CPRE6789.

Recommendation: Staff should develop and use a checklist to ensure all steps are taken to prepare accurate enrollment and attendance reports.

Management's Response: The suggested checklist has been prepared. The site supervisor will be held responsible for ensuring the list is used by staff to prepare accurate enrollment and attendance reports.

Comment 2. During our review of accrued expenses we noted that the validity of some account balances at year end could not be determined by Example Entity's management. The balances were immaterial to the overall financial statements, individually and collectively. However, a key part of financial management of the organization is ensuring that all transactions are correctly presented and accounted for.

Recommendation: Example Entity's management should determine the validity of all balances that are recorded on the financial statements.

Management's Response: Our closing and reconciliation process is being reviewed to improve the effectiveness of the year-end procedures and controls to determine the validity of all recorded balances.

Comment 3. Review of Example Entity's operating lease schedule, to determine future minimum operating lease payment disclosures, identified some lease amounts recorded incorrectly. This could adversely impact the ability to budget accurately and consistently with actual future expenditures and financial statements.

Recommendation: The operating lease schedule must be reviewed periodically by management for accuracy.

Management's Response: Example Entity's management is taking steps to ensure that the operating lease schedule is reviewed by management for accuracy on a regular basis.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various management of your organization, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in further implementing the recommendations.

Firm's signature
City, State
October 15, 2017

[Note to auditor: these comments could have been included in the Internal Control Communication Letter, providing they were set apart as other matters related to internal control.]

APPENDIX B

ILLUSTRATIVE SCHEDULES

CHILD AND ADULT CARE FOOD PROGRAM

SPONSOR OF CHILD CARE CENTERS

(FIXED PERCENTAGE METHOD)

XYZ CHILD CARE CENTER, INC.

FISCAL YEAR ENDED JUNE 30, 200Y

**XYZ Child Care Center, Inc.
Fiscal Year Ended June 30, 200Y**

Illustrative Schedules

Sponsor of Child Care Centers

Table of Contents

	<u>Exhibit</u>
Summary of Claim	A
Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement	B
Schedule of Reported, Adjusted, and Allowed Eligibility	C
Schedule of Reported, Adjusted, and Allowed Meals	D

XYZ Child Care Center, Inc.
SUMMARY OF CLAIM
 Agreement No: xx-xxxx-xA
 For the Period July 1, 200X to June 30, 200Y

		<u>Allowed</u>		<u>Paid</u>
Amount Reimbursable from Federal Fund:	Exhibit B	\$649,660		
Federal Fund Payments to Date			Exhibit B	687,650
Federal Fund Reimbursement Variance (Overpaid):				Exhibit B (\$37,990)
Cash In-Lieu Reimbursement:	Exhibit B	\$35,895	Exhibit B	\$36,225
				Exhibit B <u>(\$330)</u>
Total Federal Fund Reimbursement Variance (Overpaid):				(\$38,320)
State Meal Compensation:	Exhibit B	\$47,441	Exhibit B	\$50,569
				Exhibit B <u>(\$3,128)</u>
Total Program Reimbursement (State and Federal) Underpayment (Overpayment)				Exhibit B <u><u>(\$41,448)</u></u>

XYZ Child Care Center, Inc.
Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement
Agreement No: xx-xxxx-xA
For the Period July 1, 200X TO June 30, 200Y

FIXED PERCENTAGE METHOD

<u>Federal Meal Compensation</u>	<u>MEALS</u>			<u>Food Service Rates¹</u>	<u>Revenue Recognized</u>	<u>Audit Adjustments²</u>	<u>Earned Reimbursement</u>
	<u>Reported</u>	<u>Adjusted*</u>	<u>Allowed</u>				
<u>Breakfast</u>							
Free	181,830	(12,113)	169,717	\$1.0725	195,013	(12,991)	182,021
Reduced	3,482	619	4,101	0.7725	2,690	478	3,168
Base	49,913	9,268	59,181	0.2000	9,983	1,854	11,836
Total	<u>235,225</u>	<u>(2,226)</u>	<u>232,999</u>		<u>207,685</u>	<u>(10,659)</u>	<u>197,026</u>
<u>Lunch</u>							
Free	189,846	(12,586)	177,260	\$1.9425	368,776	(24,448)	344,328
Reduced	3,636	647	4,283	1.5425	5,609	998	6,607
Base	52,114	9,698	61,812	0.1800	9,381	1,746	11,126
Total	<u>245,596</u>	<u>(2,241)</u>	<u>243,355</u>		<u>383,765</u>	<u>(21,705)</u>	<u>362,060</u>
<u>Supplements</u>							
Free	175,354	(11,541)	163,813	\$0.5325	93,376	(6,146)	87,230
Reduced	3,357	601	3,958	0.2675	898	161	1,059
Base	48,137	8,988	57,125	0.0400	1,925	360	2,285
Total	<u>226,848</u>	<u>(1,952)</u>	<u>224,896</u>		<u>96,199</u>	<u>(5,625)</u>	<u>90,574</u>
Total Federal Meal Reimbursement					687,650	(37,990)	649,660
Cash-in-Lieu	<u>245,596</u>	<u>(2,241)</u>	<u>243,355</u>	\$0.1475	<u>36,225</u>	<u>(330)</u>	<u>35,895</u>
Total Federal Reimbursement					<u>723,875</u>	<u>(38,320)</u>	<u>685,555</u>
State Meal Compensation	<u>378,794</u>	<u>(23,433)</u>	<u>355,361</u>	\$0.1335	<u>50,569</u>	<u>(3,128)</u>	<u>47,441</u>
Total Program Reimbursement (State and Federal) Overpaid - Refund due the State					<u>Exhibit A</u>	<u>Exhibit A</u>	<u>Exhibit A</u>
						<u>(41,448)</u>	
							<u>Exhibit A</u>

Footnotes:

¹ The rates change annually and are on the website at www.cde.ca.gov/ls/nu/rs.

² Adjustments are the result of: (1) eligibility category changes; (2) meal count errors; (3) meals served in excess of site licensed capacity.

XYZ Child Care Center, Inc.
Schedule of Reported , Adjusted and Allowed Meals
Agreement No: xx-xxxx-xA
For the Period July 1, 200X to June 30, 200Y

FIXED PERCENTAGE METHOD

	<u>Reported</u>	<u>Adjusted*</u> <u>July 200X</u>	<u>Allowed</u>	<u>Reported</u>	<u>Adjusted*</u> <u>August 200X</u>	<u>Allowed</u>	<u>Reported</u>	<u>Adjusted*</u> <u>September 200X</u>	<u>Allowed</u>
<u>Breakfast</u>									
Free	17,189	(1,137)	16,052	17,017	(1,109)	15,908	15,444	(1,036)	14,408
Reduced	329	59	388	326	58	384	296	52	348
Base	4,719	878	5,597	4,671	876	5,547	4,239	785	5,024
Total	<u>22,237</u>	<u>(200)</u>	<u>22,037</u>	<u>22,014</u>	<u>(175)</u>	<u>21,839</u>	<u>19,979</u>	<u>(199)</u>	<u>19,780</u>
<u>Lunch</u>									
Free	17,750	(1,162)	16,588	15,887	(1,063)	14,824	15,447	(1,036)	14,411
Reduced	340	61	401	304	54	358	296	52	348
Base	4,873	911	5,784	4,361	809	5,170	4,240	785	5,025
Total	<u>22,963</u>	<u>(190)</u>	<u>22,773</u>	<u>20,552</u>	<u>(200)</u>	<u>20,352</u>	<u>19,983</u>	<u>(199)</u>	<u>19,784</u>
<u>Supplements</u>									
Free	17,078	(1,095)	15,983	15,559	(1,007)	14,552	15,061	(869)	14,192
Reduced	327	59	386	298	54	352	288	55	343
Base	4,688	886	5,574	4,271	803	5,074	4,135	814	4,949
Total	<u>22,093</u>	<u>(150)</u>	<u>21,943</u>	<u>20,128</u>	<u>(150)</u>	<u>19,978</u>	<u>19,484</u>	<u>0</u>	<u>19,484</u>
	<u>Reported</u>	<u>Adjusted*</u> <u>October 200X</u>	<u>Allowed</u>	<u>Reported</u>	<u>Adjusted*</u> <u>November 200X</u>	<u>Allowed</u>	<u>Reported</u>	<u>Adjusted*</u> <u>December 200X</u>	<u>Allowed</u>
<u>Breakfast</u>									
Free	16,398	(1,059)	15,339	15,461	(1,020)	14,441	18,118	(1,181)	16,937
Reduced	314	57	371	296	53	349	347	62	409
Base	4,502	847	5,349	4,244	792	5,036	4,973	934	5,907
Total	<u>21,214</u>	<u>(155)</u>	<u>21,059</u>	<u>20,001</u>	<u>(175)</u>	<u>19,826</u>	<u>23,438</u>	<u>(185)</u>	<u>23,253</u>
<u>Lunch</u>									
Free	16,744	(1,079)	15,665	15,482	(1,021)	14,461	18,050	(1,176)	16,874
Reduced	321	58	379	296	53	349	346	62	408
Base	4,596	866	5,462	4,250	793	5,043	4,955	929	5,884
Total	<u>21,661</u>	<u>(155)</u>	<u>21,506</u>	<u>20,028</u>	<u>(1,175)</u>	<u>19,853</u>	<u>23,351</u>	<u>(185)</u>	<u>23,166</u>
<u>Supplements</u>									
Free	16,672	(1,075)	15,597	15,564	(1,026)	14,538	18,197	(1,184)	17,013
Reduced	319	58	377	298	53	351	348	63	411
Base	4,577	862	5,439	4,272	798	5,070	4,996	936	5,932
Total	<u>21,568</u>	<u>(155)</u>	<u>21,413</u>	<u>20,134</u>	<u>175</u>	<u>19,959</u>	<u>23,541</u>	<u>185</u>	<u>23,356</u>

XYZ Child Care Center, Inc.
Schedule of Reported, Adjusted, and Allowed Meals
Agreement No: xx-xxxx-xA
For the Period July 1, 200X to June 30, 200Y

FIXED PERCENTAGE METHOD

	<u>Reported</u>	<u>Adjusted*</u> <u>Jan 200Y</u>	<u>Allowed</u>	<u>Reported</u>	<u>Adjusted*</u> <u>February 200Y</u>	<u>Allowed</u>	<u>Reported</u>	<u>Adjusted*</u> <u>March 200Y</u>	<u>Allowed</u>
<u>Breakfast</u>									
Free	16,337	(1,061)	15,276	15,465	(1,030)	14,435	9,252	(679)	8,573
Reduced	313	56	369	296	53	349	177	30	207
Base	4,484	843	5,327	4,245	788	5,033	2,540	449	2,989
Total	<u>21,134</u>	<u>162</u>	<u>20,972</u>	<u>20,006</u>	<u>(189)</u>	<u>19,817</u>	<u>11,969</u>	<u>(200)</u>	<u>11,769</u>
<u>Lunch</u>									
Free	16,688	(1,081)	15,607	15,765	(1,047)	14,718	15,580	(1,045)	14,535
Reduced	320	57	377	302	54	356	298	53	351
Base	4,580	862	5,442	4,328	804	5,132	4,277	792	5,069
Total	<u>21,588</u>	<u>(162)</u>	<u>21,426</u>	<u>20,395</u>	<u>(189)</u>	<u>20,206</u>	<u>20,155</u>	<u>(200)</u>	<u>19,955</u>
<u>Supplements</u>									
Free	16,354	(1,062)	15,292	15,497	(1,032)	14,465	15,548	(1,043)	14,505
Reduced	313	56	369	297	53	350	298	52	350
Base	4,489	844	5,333	4,254	790	5,044	4,268	791	5,059
Total	<u>21,156</u>	<u>(162)</u>	<u>20,994</u>	<u>20,048</u>	<u>(189)</u>	<u>19,859</u>	<u>20,114</u>	<u>(200)</u>	<u>19,914</u>
	<u>Reported</u>	<u>Adjusted*</u> <u>April 200Y</u>	<u>Allowed</u>	<u>Reported</u>	<u>Adjusted*</u> <u>May 200Y</u>	<u>Allowed</u>	<u>Reported</u>	<u>Adjusted*</u> <u>June 200Y</u>	<u>Allowed</u>
<u>Breakfast</u>									
Free	14,447	(79)	13,468	13,132	(896)	12,236	13,570	(926)	12,644
Reduced	277	48	325	251	45	296	260	46	306
Base	3,966	731	4,697	3,605	661	4,266	3,725	684	4,409
Total	<u>18,690</u>	<u>(200)</u>	<u>18,490</u>	<u>16,988</u>	<u>(190)</u>	<u>16,798</u>	<u>17,555</u>	<u>(196)</u>	<u>17,359</u>
<u>Lunch</u>									
Free	15,393	(1,034)	14,359	13,323	(907)	12,416	13,737	(935)	12,802
Reduced	295	52	347	255	45	300	263	46	309
Base	4,225	782	5,007	3,658	672	4,330	3,771	693	4,464
Total	<u>19,913</u>	<u>(200)</u>	<u>19,713</u>	<u>17,236</u>	<u>(190)</u>	<u>17,046</u>	<u>17,771</u>	<u>(196)</u>	<u>17,575</u>
<u>Supplements</u>									
Free	14,755	(997)	13,758	13,699	(929)	12,770	1,370	(222)	1,148
Reduced	283	49	332	262	47	309	26	2	28
Base	4,050	748	4,798	3,761	692	4,453	376	24	400
Total	<u>19,088</u>	<u>(200)</u>	<u>18,888</u>	<u>17,722</u>	<u>(190)</u>	<u>17,532</u>	<u>1,772</u>	<u>(196)</u>	<u>1,576</u>

APPENDIX C
ILLUSTRATIVE SCHEDULES
CHILD AND ADULT CARE FOOD PROGRAM
SPONSOR OF DAY CARE HOMES
(TIERING METHOD)

XYZ DAY CARE HOME, INC.
FISCAL YEAR ENDED JUNE 30, 200Y

**XYZ Day Care Home, Inc.
Fiscal Year Ended June 30, 200Y**

Illustrative Schedules

Sponsor of Day Care Homes

Table of Contents

	<u>Exhibit</u>
Summary of Claim	A
Schedule of Reported, Adjusted, and Allowed Meals, Sites and Earned Reimbursement	B
Schedule of Reported, Adjusted, and Allowed Meals and Homes	C
Determination of Allowable Administrative Reimbursement	D
Schedule of Reported, Adjusted, and Allowed Administrative Income	E
Determination of Reported, Adjusted, and Allowed Administrative Cost	F
Determination of Budget Deficit (Adjustments)	G
Determination of Allowed Provider Payments	H

Exhibit A

XYZ Day Care Home, Inc.
Summary of Claim
 Agreement No: xx-xxxx-xF
 For the Period July 1, 200X to June 30, 200Y

	<u>Allowed</u>	<u>Paid</u>	
Amount Reimbursable from Federal Fund: Federal Fund Payments to Date	Exhibit B \$1,342,741	Exhibit B 3,000,640	
Federal Fund Reimbursement Variance (Overpaid):			Exhibit B (\$1,657,898)
Cash In-Lieu Reimbursement:	Exhibit B <u>\$152,442</u>	Exhibit B <u>\$152,560</u>	Exhibit B (\$118)
Administrative Reimbursement:	Exhibit B <u>\$379,221</u>	Exhibit B <u>\$533,670</u>	Exhibit B (\$154,449)
Total Federal Fund Reimbursement Variance (Overpaid)			Exhibit B (\$1,812,465)
State Meal Compensation:	Exhibit B <u>\$134,487</u>	Exhibit B <u>\$134,527</u>	Exhibit B (\$40)
Total Program Reimbursement (State and Federal) Refund (Overpayment)			Exhibit B <u>(\$1,812,505)</u>

**Exhibit B
Page 1 of 1**

XYZ Day Care Home, Inc.
 Schedule of Reported, Adjusted, Allowed Meals, Sites and Earned Reimbursement
 Agreement No.: xx-xxxx-xF
 For the Period July 1, 200X to June 30, 200Y

	<u>Reported</u>	<u>MEALS Adjusted¹</u>	<u>Allowed</u>	Food Service <u>Rates²</u>	Revenue <u>Recognized</u>	Audit <u>Adjustment</u>	Earned <u>Reimbursement</u>
FEDERAL REIMBURSEMENT							
<u>Meal Compensation - Tier I</u>							
Breakfast	769,440	(769,440)	0	\$0.9000	692,496	(692,496)	0
Lunch	574,150	(574,150)	0	1.5025	862,660	(862,660)	0
Supplement	1,538,971	(1,538,971)	0	0.4900	754,096	(754,096)	0
Supper	460,158	(460,158)	0	1.5025	691,387	(691,387)	0
Subtotal					<u>3,000,640</u>	<u>(3,000,640)</u>	<u>0</u>
<u>Meal Compensation - Tier II</u>							
Breakfast	0	769,440	769,440	0.3400	0	261,610	261,610
Lunch	0	573,750	573,750	0.8525	0	489,122	489,122
Supplement	0	1,538,971	1,538,971	0.1300	0	200,066	200,066
Supper	0	459,758	459,758	0.8525	0	391,944	391,944
Subtotal					<u>0</u>	<u>1,342,741</u>	<u>1,342,741</u>
Total Federal Meal Compensation					3,000,640	(1,657,898)	1,342,741
Cash-in-Lieu	<u>1,034,308</u>	<u>(800)</u>	<u>1,033,508</u>	0.1475	152,560	(118)	152,442
Total Allowable Administrative Reimbursements					533,670	(154,449)	379,221
Total Federal Reimbursement					<u>3,686,870</u>	<u>(1,812,465)</u>	<u>1,874,405</u>
STATE MEAL COMPENSATION	<u>1,007,693</u>	<u>(300)</u>	<u>1,007,393</u>	0.1335	134,527	(40)	134,487
Total Federal and State Reimbursement: Overpaid-- Refund Due the State					<u>3,821,397</u>	<u>(1,812,505)</u>	<u>2,008,892</u>

Footnote:

¹ Adjusted meals are the result of: reclassifying enrolled children from Tier I to Tier II, attendance and meal count errors, and meal production noncompliance.

² The rates change annually and are on the website at www.cde.ca.gov/lr/nu/rs.

SCHEDULE OF REPORTED, ADJUSTED, AND ALLOWED MEALS AND HOMES

For the Period July 1, 200X to June 30, 200Y
(This Schedule Must Report 12 Months)*

TIER I			TIER II HIGH			TIER II LOW			
July 1, 200X to July 31, 200X									
Meal Type	Reported	** Adjusted	Allowed	Reported	** Adjusted	Allowed	Reported	** Adjusted	Allowed
Breakfast	58,952	(58,952)	0	0	256	256	546		546
Lunch	65,876	(65,876)	0	0	298	298	658		658
Supper	22,148	(22,148)	0	0	145	145	204		204
Supplements	97,653	(97,653)	0	0	384	384	927		927
(Tier I)				(Tier II High)			(Tier II Low)		
Homes	563	0	563	0	1	1	2	0	2
			Homes (Tier II Mixed) ***			Total Homes			
			0	1	1	0	1	1	
August 1, 200X to August 31, 200X									
Meal Type	Reported	** Adjusted	Allowed	Reported	** Adjusted	Allowed	Reported	** Adjusted	Allowed
Breakfast									
Lunch									
Supper									
Supplements									
(Tier I)				(Tier II High)			(Tier II Low)		
Homes	563	0	563	0	1	1	2	0	2
			Homes (Tier II Mixed) ***			Total Homes			
			0	1	1	0	1	1	
September 1, 200X to September 30, 200X									
Meal Type	Reported	** Adjusted	Allowed	Reported	** Adjusted	Allowed	Reported	** Adjusted	Allowed
Breakfast									
Lunch									
Supper									
Supplements									
(Tier I)				(Tier II High)			(Tier II Low)		
Homes	563	0	563	0	1	1	2	0	2
			Homes (Tier II Mixed) ***			Total Homes			
			0	1	1	0	1	1	

Footnotes:

- * This partial schedule is an example of three months; a complete schedule must include 12 months (no fiscal year totals).
- ** Adjustments are the result of eligibility category changes and/or meal count errors.
- *** The Tier II category consists of two distinct sub-categories, High and Low (separate meal rates are applied to each). Tier II Mixed (home) meals are reported per the eligibility of each child in the Tier II High and/or Low meal categories.

**Exhibit D
Page 1 of 1**

XYZ Day Care Home, Inc.
Determination of Allowable Administrative Reimbursement
Agreement No.: xx-xxxx-xF
For the Period July 1, 200X to June 30, 200Y

A. Reimbursement Rates Calculation	Reported <u>Homes</u>	Adjusted <u>Homes</u>	Allowed <u>Homes</u>	Home Admin Payment <u>Rates¹</u>	<u>Total</u>
0-50	600	0	600	\$76	45,600
51-200	1,800	0	1,800	58	104,400
201-1000	8,526	0	8,526	45	383,670
> 1000	0	0	0	40	<u>0</u>
Total Homes Times Applicable Rates					<u>533,670</u>
B. Net Administrative Costs Allowed (From Schedule of Allowed Administrative Costs)					<u>379,221</u>
C. Total Approved Administrative Budget					<u><u>537,996</u></u>
D.	(1) Total Allowable Reimbursements <u>Federal & State</u> \$1,629,670.00	(2) Lesser of Costs, Budget or <u>(A,B or C)</u> \$379,220.00	Sum of Column (1) and (2) \$2,008,891.00	X Applicable Rates 30%	<u><u>602,667</u></u>
E. Total Allowable Administrative Reimbursement (Lesser of line A, B, C or D)					<u><u>379,221</u></u>

Footnote: ¹ The rates change annually and are on the website at www.cde.ca.gov/ls/nu/rs.

Exhibit E
Page 1 of 1

XYZ Day Care Home, Inc.
 Schedule of Reported, Adjusted and Allowed Administrative Income
 Agreement No.: xx-xxxx-xF
 For the Period of July 1, 200X to June 30, 200Y

<u>Period</u>	<u>Reported*</u>	<u>Adjusted</u>	<u>Allowed</u>
July	2,150	\$(11) ⁽¹⁾	2,138
August	2,771	1,030 ⁽³⁾	3,801
September	2,421	1,878 ⁽³⁾	4,299
October	3,106	0	3,106
November	2,760	5,000 ⁽³⁾	7,760
December	2,543	0	2,543
January	3,537	2,000 ⁽³⁾	5,537
February	3,828	0	3,828
March	4,135	564 ⁽³⁾	4,700
April	4,147	0	4,147
May	4,228	0	4,228
June	4,721	111 ⁽²⁾	4,833
	<u>40,346</u>	<u>10,572</u>	<u>50,919</u>

Footnotes:

* Retained 30% of State Meal Compensation

(1) Disallowed breakfast and lunch meals

(2) Interest income earned

(3) Other income

APPENDIX C
Exhibit F
Page 1 of 1

XYZ Day Care Home, Inc.
Determination of Reported, Adjusted, and Allowed Administrative Cost
Agreement No.: xx-xxxx-xF
For the Period July 1, 200X to June 30, 200Y

Summary of Reported and Allowed Administrative Costs

<u>Period</u>	Reported <u>Cost</u>	Audit <u>Adjustments</u>	Budget Deficit <u>Adjustments</u>	Allowed <u>Cost</u>
July	37,926	(3,846)	(6,458)	27,622
August	43,554	(3,869)	(6,458)	33,227
September	43,574	(5,795)	(6,458)	31,321
October	64,456	(5,918)	(6,458)	52,080
November	32,073	(3,215)	(6,458)	22,400
December	39,961	(3,461)	(6,458)	30,042
January	47,136	(4,538)	(6,458)	36,140
February	42,357	(3,273)	(6,458)	32,626
March	40,845	(3,457)	(6,458)	30,930
April	39,799	(3,681)	(6,458)	29,660
May	51,673	(3,305)	(6,458)	41,910
June	<u>70,665</u>	<u>(3,018)</u>	<u>(5,466)</u>	<u>62,181</u>
Totals	<u>554,019</u>	<u>(47,376)</u>	<u>(76,504)</u>	430,139
State Meal Compensation Funds Retained by Sponsor (0 to 30%)				(40,346)
Other Income				<u>(10,572)</u>
Net Administrative Costs				<u>379,221</u>

XYZ Day Care Home, Inc.
Agreement No.: xx-xxxx-xF
For the Period July 1, 200X to June 30, 200Y

Determination of Budget Deficit (Adjustments)				
Category	Approved Budget	Actual Cost	Budget Deficit	Budget Savings
Administrative labor				
Salaries	\$276,978.00	\$309,556.00	\$32,578.00	\$0.00
Benefits	90,624.00	31,854.00	0.00	58,770.00
Administrative Supplies				
Equipment purchased under \$5,000	300.00	15,649.00	15,349.00	0.00
Equipment purchased \$5,000 and over	11,954.00	9,243.00	0.00	2,711.00
Office supplies	0.00	0.00	0.00	0.00
Postage	29,980.00	34,223.00	4243.00	0.00
Printing	7,680.00	9,169.00	1,489.00	0.00
Administrative Services				
Office Space	37,200.00	37,200.00	0.00	0.00
Utilities and communication	9,120.00	12,012.00	2,892.00	0.00
Vehicle Lease	12,720.00	13,284.00	564.00	0.00
Equipment Lease	0.00	0.00	0.00	0.00
Contract Services	0.00	0.00	0.00	0.00
Training	0.00	0.00	0.00	0.00
Advertising	0.00	0.00	0.00	0.00
Dues, Subscriptions, Memberships	0.00	0.00	0.00	0.00
Insurance Premiums	0.00	0.00	0.00	0.00
License Related Expenses	0.00	0.00	0.00	0.00
Administrative Expenses				
Program Activities	0.00	0.00	0.00	0.00
In-State Workshops	48,240.00	55,161.00	6,921.00	0.00
Out-of-State Conference	0.00	0.00	0.00	0.00
Miscellaneous Expenses				
Other	13,200.00	26,668.00	13,468.00	0.00
Total	\$537,996.00	554,019.00	\$77,504.00	\$61,481.00

Exhibit H
Page 1 of 1

XYZ Day Care Home, Inc.
Determination of Allowed Provider Payments (Federal & State)
Agreement No.: xx-xxxx-xF
For the Period July 1, 200X to June 30, 200Y

<u>Period</u>	<u>Allowed Federal Funds</u> <u>Owed Providers</u>	<u>Allowed State Funds</u> <u>Owed Providers</u>	<u>Total Allowed Funds</u> <u>Owed Providers</u>	<u>Total Funds</u> <u>Paid - Providers</u>	<u>Total Funds</u> <u>Underpaid (Overpaid)</u>
July	106,067	5,016	111,084	217,854	(106,770)
August	96,978	6,465	103,442	203,178	(99,735)
September	119,364	5,648	125,012	245,399	(120,387)
October	124,202	7,248	131,449	262,829	(131,379)
November	116,047	6,439	122,486	252,196	(129,709)
December	99,063	5,933	104,996	210,040	(105,044)
January	118,264	8,254	126,518	263,812	(137,294)
February	123,928	8,931	132,859	280,249	(147,390)
March	141,898	9,649	151,547	314,008	(162,461)
April	141,058	9,676	150,734	313,611	(162,877)
May	144,972	9,866	154,838	321,091	(166,253)
June	163,343	11,015	174,359	363,103	(188,745)
Totals	<u>1,495,184</u>	<u>94,141</u>	<u>1,589,325</u>	<u>3,247,369</u>	<u>(1,658,044)</u>

Footnotes:

* Overpayment is attributed to funds paid day care home providers based on Tier I instead of Tier II meals, attendance

APPENDIX D

ILLUSTRATIVE SCHEDULES

CHILD AND ADULT CARE FOOD PROGRAM

SPONSOR OF INDEPENDENT CENTERS

(FIXED PERCENTAGE METHOD)

LITTLE COUNTRY SCHOOL

FISCAL YEAR ENDED SEPTEMBER 30, 200Y

**Little Country School
Fiscal Year Ended September 30, 200Y**

Illustrative Schedules

Sponsor of Independent Centers

Table of Contents

	<u>Exhibit</u>
Summary of Claim	A
Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement	B
Schedule of Reported, Adjusted, and Allowed Meals	C
Schedule of Reported, Adjusted, and Allowed Eligibility	D
Reconciliation of Allowable Administrative Costs	E
Schedule of Allowed Administrative Costs	F
Schedule of Allowed Funds Retained	G

Little Country School
SUMMARY OF CLAIM
Agreement No: xx-xxxx-xM
For the Period October 1, 200X to September 30, 200Y

		<u>Allowed</u>		<u>Paid</u>	
Amount Reimbursable from Federal Fund:					
Federal Fund Payments to Date	Exhibit B	\$1,586,366		1,587,226	
Federal Fund Reimbursement Variance (Overpaid):					Exhibit B (\$860)
Cash In-Lieu Reimbursement:					
	Exhibit B	\$93,400	Exhibit B	\$93,474	Exhibit B <u>(\$74)</u>
Total Federal Fund Reimbursement Variance (Overpaid):					(\$934)
State Meal Compensation:					
	Exhibit B	\$81,566	Exhibit B	\$81,626	Exhibit B <u>(\$60)</u>
Total Program Reimbursement (State and Federal) Underpayment (Overpayment)					Exhibit B <u><u>(\$994)</u></u>

**Exhibit B
Page 1 of 1**

Little Country School
 Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement
 Agreement No: xx-xxxx-xM
 For the Period October 1, 200X to September 30, 200Y

	<u>Reported</u>	<u>Adjusted*</u>	<u>MEALS Allowed</u>	<u>Food Service Rates</u> ¹	<u>Revenue Recognized</u>	<u>Audit Adjustments</u> ²	<u>Earned Reimbursement</u>
<u>October 200X - June 200Y</u>							
General Reimbursement					1,138,374	(860)	1,137,514
Cash In-Lieu	<u>458,955</u>	<u>(500)</u>	<u>458,455</u>	0.1475	<u>67,696</u>	<u>(74)</u>	<u>67,622</u>
Federal Reimbursement					<u>1,206,070</u>	<u>(934)</u>	<u>1,205,136</u>
State Meal Compensation	<u>442,286</u>	<u>(449)</u>	<u>441,837</u>	0.1335	<u>59,045</u>	<u>(60)</u>	<u>59,985</u>
<u>July 200Y to September 200Y</u>							
General Reimbursement					448,852	0	448,852
Cash In-Lieu	<u>180,895</u>	<u>0</u>	<u>180,895</u>	0.1425	<u>25,778</u>	<u>0</u>	<u>25,778</u>
Federal Reimbursement					<u>474,630</u>	<u>0</u>	<u>474,630</u>
State Meal Compensation	<u>169,145</u>	<u>0</u>	<u>169,145</u>	0.1335	<u>22,581</u>	<u>0</u>	<u>22,581</u>
Grand Totals:							
General Reimbursement					1,587,226	(860)	1,586,366
					Exhibit A	Exhibit A	Exhibit A
Cash-in-Lieu					93,474	(74)	93,400
					Exhibit A	Exhibit A	Exhibit A
State Meal Compensation					<u>81,626</u>	<u>(60)</u>	<u>82,566</u>
					Exhibit A	Exhibit A	Exhibit A
Total Program Reimbursement (State and Federal) Overpaid - Refund due the State					<u>1,762,326</u>	<u>(994)</u>	<u>1,762,332</u>
					Exhibit A	Exhibit A	Exhibit A

Footnotes:

¹ The rates change annually and are on the Web site at <http://www.cde.ca.gov/ls/nu/rs>.

² Audit adjustments are the result of (1) eligibility category changes, (2) meal count errors, and/or (3) meals served in excess of site licensed capacity.

Little Country School
Child and Adult Care Food Program – Independent Centers
Schedule of Reported, Adjusted, and Allowed Meals
For the Period October 1, 200X to September 30, 200Y
(This Schedule Must Report 12 Months)*

	<u>Reported</u>	<u>Adjusted**</u> <u>October 200X</u>	<u>Allowed</u>	<u>Reported</u>	<u>Adjusted**</u> <u>November 200X</u>	<u>Allowed</u>	<u>Reported</u>	<u>Adjusted**</u> <u>December 200X</u>	<u>Allowed</u>
Breakfast									
Free	16,655	0	16,655	15,064	0	15,064	17,980	0	17,980
Reduced	2,227	0	2,227	2,073	0	2,073	2,373	0	2,373
Base	<u>2,168</u>	<u>0</u>	<u>2,168</u>	<u>2,218</u>	<u>0</u>	<u>2,218</u>	<u>2,637</u>	<u>0</u>	<u>2,637</u>
Total	<u>21,050</u>	<u>0</u>	<u>21,050</u>	<u>19,355</u>	<u>0</u>	<u>19,355</u>	<u>22,990</u>	<u>0</u>	<u>22,990</u>
Lunch									
Free	23,842	(396)	23,446	21,946	0	21,946	25,588	0	25,588
Reduced	3,188	(53)	3,135	3,020	0	3,020	3,376	0	3,376
Base	<u>3,104</u>	<u>(51)</u>	<u>3,053</u>	<u>3,231</u>	<u>0</u>	<u>3,231</u>	<u>3,753</u>	<u>0</u>	<u>3,753</u>
Total	<u>30,134</u>	<u>(500)</u>	<u>29,634</u>	<u>28,197</u>	<u>0</u>	<u>28,197</u>	<u>32,717</u>	<u>0</u>	<u>32,717</u>
Supplements									
Free	30,676	0	30,676	28,625	0	28,625	32,990	0	32,990
Reduced	4,102	0	4,102	3,939	0	3,939	4,353	0	4,353
Base	<u>3,994</u>	<u>0</u>	<u>3,994</u>	<u>4,215</u>	<u>0</u>	<u>4,215</u>	<u>4,838</u>	<u>0</u>	<u>4,838</u>
Total	<u>38,772</u>	<u>0</u>	<u>38,772</u>	<u>36,779</u>	<u>0</u>	<u>36,779</u>	<u>42,181</u>	<u>0</u>	<u>42,181</u>
Supper									
Free	12,657	0	12,657	10,919	0	10,919	13,102	0	13,102
Reduced	1,692	0	1,692	1,503	0	1,503	1,729	0	1,729
Base	<u>1,648</u>	<u>0</u>	<u>1,648</u>	<u>1,607</u>	<u>0</u>	<u>1,607</u>	<u>1,921</u>	<u>0</u>	<u>1,921</u>
Total	<u>15,997</u>	<u>0</u>	<u>15,997</u>	<u>14,029</u>	<u>0</u>	<u>14,029</u>	<u>16,752</u>	<u>0</u>	<u>16,752</u>

* This partial schedule is an example of three months; a complete schedule must include 12 months (no fiscal year totals).

** Meal adjustments are due to (1) eligibility category changes, (2) meal count errors, and/or (3) meals served in excess of licensed capacity.

Little Country School
Child and Adult Care Food Program – Independent Centers
Schedule of Reported, Adjusted, and Allowed Eligibility
For the Period October 1, 200X to September 30, 200Y

FIXED PERCENTAGE METHOD

	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>
<u>Total Enrolled</u>												
Reported	1475	1597	1657	1657	1637	1697	1825	1825	1825	1855	1917	1927
Adjusted	0	0	0	0	0	0	0	0	0	0	0	0
Allowed												1927
<u>Eligibility Categories</u>												
Free	1475	1597	1657	1657	1637	1697	1825	1825	1825	1855	1917	
Reported								1415	1415	1437		1499
Adjusted	1167 ₀	1243 ₀	1296 ₀	1296 ₀	1288 ₀	1347 ₀	1415 ₀	0	0	0	1491 ₀	0
Allowed	1167	1243	1296	1296	1288	1347	1415	1415	1415	1437	1491	1499
Reduced									181	185	193 ₀	195
Reported	156		171		161 ₀	162 ₀	181 ₀	181 ₀	0	0	0	0
Adjusted	0	171	0	171 ₀	161 ₀	162 ₀	181 ₀	181 ₀	0	0	0	0
Allowed	156	171	171	171	161	162	181	181	181	185	193	195
Base									229	233	233	233
Reported	152		190		188 ₀	188	229		229	233	233	233
Adjusted	0	183	190	190	188 ₀	188	0	229	0	0	0	0
Allowed	152	183	190	190	188	188	229	229	229	233	233	233

Little Country School
Child and Adult Care Food Program – Independent Centers

Reconciliation of Allowable Administrative Costs
For the Period October 1, 200X to September 30, 200Y

(1)	Net Administrative Costs Allowed – Actual	Exhibit F \$465,735
	Less Total Reported Funds Retained by Sponsor	Exhibit G <u>489,419</u>
	Total Excess Funds Retained	\$ <u>23,684</u>
(2)	Net Administrative Costs Allowed – Actual	Exhibit F \$465,735
	Less Total Allowed Funds Retained (Per Audited Meals)	Exhibit G <u>489,113</u>
	Excess Funds Retained – Funds Owed to Centers	\$ <u>23,378*</u>
(3)	Total Reported Funds Retained by Sponsor	Exhibit G \$489,419
	Less Total Allowed Funds Retained (Per Audited Meals)	Exhibit G <u>489,113</u>
	Excess Funds Retained – Funds Due The State	\$ <u>306</u>

*Include in Findings and Recommendation Section

Little Country School
Child and Adult Care Food Program – Independent Centers

Schedule of Allowed Administrative Costs
For the Period October 1, 200X to September 30, 200Y

<u>Period</u>	<u>Reported</u>	<u>Adjusted</u>	<u>Allowed</u>
October	\$33,905	(200)	\$33,705
November	34,655	(45)	34,610
December	38,673	0	38,673
January	38,657	1,090	39,747
February	33,543	0	33,543
March	39,477	(26)	39,451
April	43,238	0	43,238
May	43,554	0	43,554
June	38,117	(771)	37,346
July	38,233	0	38,233
August	40,501	0	40,501
September	<u>43,182</u>	<u>0</u>	<u>43,182</u>
Total	<u>\$465,735</u>	<u>\$48</u>	\$465,783
Income			(48)
Net Allowed Administrative Costs			<u>\$465,735</u>

Exhibit E

Little Country School
Child and Adult Care Food Program – Independent Centers
Schedule of Allowed Funds Retained
For the Period October 1, 200X to September 30, 200Y

Period	(1) Funds Received From NSD (Federal and State)	(2) Funds Paid To Center	(3) Funds Retained By Sponsor	(4) (1) / (3) Percentage of Funds Retained	(5) Sponsor's Adjustments (Overpayment) Underpayment	(6) Allowed Funds Retained	(7) Center's Adjustment (Overpayment) Underpaid
October	\$ 202,688	\$ 166,912	\$35,776	0.3075	\$(306)	\$35,470	\$(687)
November	105,864	73,358	32,506	0.3071	0.00	32,506	0.00
December	124,049	85,962	38,087	0.3070	0.00	38,087	0.00
January	109,641	75,971	33,670	0.3071	0.00	33,670	0.00
February	109,235	75,662	33,573	0.3073	0.00	33,573	0.00
March	144,669	100,366	44,303	0.3062	0.00	44,303	0.00
April	141,674	98,404	43,270	0.3054	0.00	43,270	0.00
May	133,452	92,704	40,748	0.3053	0.00	40,748	0.00
June	147,258	102,215	45,043	0.3059	0.00	45,043	0.00
July	144,435	98,532	45,903	0.3178	0.00	45,903	0.00
August	156,259	107,191	49,068	0.3140	0.00	49,068	0.00
September	<u>149,630</u>	<u>102,158</u>	<u>47,472</u>	0.3173	<u>0.00</u>	<u>47,472</u>	<u>0.00</u>
Totals	<u>\$1,668,854</u>	<u>\$1,179,435</u>	<u>\$489,419</u>		<u>\$(306)</u>	<u>\$489,113</u>	<u>\$(687)</u>

Exhibit E

Exhibit E

<u>Meal Type</u>	<u>Reported Lunch</u>	<u>Allowed Lunch</u>	<u>Meals Adjusted</u>		<u>Reimbursement Rate*</u>	<u>Amount Owed State</u>
Free	23,842	23,446	(396)	X	2.0900	\$(828)
Reduced	3,188	3,135	(53)	X	1.6900	(89)
Base	3,104	3,053	(51)	X	.3275	(16)
Total Meals	<u>30,134</u>	<u>29,634</u>	<u>(500)</u>			(933)

State Meal Compensation (396) Free + (53) Reduced = (449) Total Adjusted X .1335 (60)
 Total Program Reimbursement (State and Federal) Overpaid, Resulting in Funds Owed the State \$(993)

Summary of Funds Owed the State
 Funds Owed to the State from The Sponsor \$ (306)
 Funds Owed to the Sponsor from The Center(s) (687)
 Total Program Reimbursement Owed the State \$ (993)

* Rate includes Cash-in-Lieu of Commodities. The rates change annually and are on the Web site at <http://www.cde.ca.gov/ls/nu/rs>

APPENDIX E

ILLUSTRATIVE SCHEDULES

SCHOOL NUTRITION PROGRAM

SPONSOR OF SCHOOL FOOD AUTHORITY

XYZ SCHOOL NUTRITION, INC.

FISCAL YEAR ENDED JUNE 30, 200Y

**XYZ School Nutrition, Inc.
Fiscal Year Ended June 30, 200Y**

Illustrative Schedules

Sponsor of School Food Authority

Table of Contents

	<u>Exhibit</u>
Summary of Claim	A
Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement	B
Schedule of Reported, Adjusted, and Allowed Eligibility	C

XYZ School Nutrition, Inc.
SUMMARY OF CLAIM
 Agreement No: xx-xxxxxx-xxxxxx-xx
 For the Period July 1, 200X to June 30, 200Y

School Nutrition Program:		<u>Allowed</u>	<u>Paid</u>	
Breakfast Program	Exhibit B	\$320,555	\$368,500	(\$47,945)
Lunch Program	Exhibit B	651,726	716,924	(\$65,198)
Milk Program	Exhibit B	11,396	13,105	<u>(\$1,709)</u>
School Nutrition Program: Amount Due to (from) Sponsor				(\$114,852)
State Meal Compensation:				
Breakfast Program	Exhibit B	36,214	40,004	(\$3,790)
Lunch Program	Exhibit B	45,081	51,782	<u>(\$6,701)</u>
State Meal Compensation: Amount Due to (from) Sponsor				(\$10,491)
Total Program Reimbursement (State and Federal) Underpayment (Overpayment)				<u><u>(\$125,343)</u></u>

XYZ School Nutrition, Inc.
 Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement
 Agreement No: xx-xxxx-xxxxxx-xx
 For the Period July 1, 200X to June 30, 200Y

	<u>Reported</u>	<u>MEALS</u> <u>Adjusted¹</u>	<u>Allowed</u>	<u>Rates⁴</u>	<u>Total</u>	
<u>Breakfast Program:</u>						
Base Meals	51,700	(6,360)	45,340	\$0.2100	9,521	
Reduced Price ²	39,340	(5,520)	33,820	0.7900	26,718	
Free ³	317,000	(56,160)	260,840	1.0900	284,316	
Total	<u>408,040</u>	<u>(68,040)</u>	<u>340,000</u>		<u>320,555</u>	
						Exhibit A
<u>Lunch Program:</u>						
Section 4 Base Meals	59,600	(6,410)	53,190	\$0.2100	11,170	
Section 11						
Reduced Price	44,900	(4,815)	40,085	1.3900	55,718	
Free	366,000	(39,275)	326,725	1.7900	584,838	
Total	<u>470,500</u>	<u>(50,500)</u>	<u>420,000</u>		<u>651,726</u>	
						Exhibit A
<u>Milk Program:</u>						
Free	81,750	(7,470)	74,280	\$0.1170	8,691	
Base	23,350	(2,130)	21,220	0.1275	2,706	
Total	<u>105,100</u>	<u>(9,600)</u>	<u>95,500</u>		<u>11,396</u>	
						Exhibit A
<u>State Meal Compensation (Free and Reduced Price Meals):</u>						
Breakfast Program	356,340	(61,680)	294,660	\$0.1229	36,214	Exhibit A
Lunch Program	410,900	(44,090)	366,810	0.1229	45,081	Exhibit A
Total	<u>767,240</u>	<u>(105,770)</u>	<u>661,470</u>		<u>81,295</u>	
State Meal Compensation	<u>378,794</u>	<u>(23,433)</u>	<u>355,361</u>	\$0.1335	<u>50,569</u>	

Footnotes:

¹ Adjustments are the result of: eligibility category changes; meal count errors; meals served in excess of site licensed capacity

² Rate includes: Regular \$0.2100	³ Rate includes: Regular \$0.2100
Supplement <u>0.5800</u>	Supplement <u>0.8800</u>
<u>\$0.7900</u>	<u>1.0900</u>

⁴ The rates change annually and are on the Web site at <http://www.cde.ca.gov/ls/nu/rs>.

XYZ School Nutrition, Inc.
Schedule of Reported, Adjusted, and Allowed Eligibility
Agreement No: xx-xxxx-xxxxxx-xx
For the Period July 1, 200X to June 30, 200Y

	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>
<u>Total Enrolled</u>												
Reported	1475	1597	1657	1657	1637	1697	1825	1825	1825	1855	1917	1927
Adjusted	0	0	0	0	0	(250)	0	0	0	0	(317)	0
Allowed	1475	1597	1657	1657	1637	1447	1825	1825	1825	1855	1600	1927
<u>Eligibility Categories</u>												
Free												
Reported	1167	1243	1296	1296	1288	1347	1415	1415	1415	1437	1491	1499
Adjusted	0	0	0	0	0	(216)	0	0	0	0	(252)	0
Allowed	1167	1243	1296	1296	1288	1131	1415	1415	1415	1437	1239	1499
Reduced												
Reported	156	171	171	171	161	162	181	181	181	185	193	195
Adjusted	0	0	0	0	0	(13)	0	0	0	0	(33)	0
Allowed	156	171	171	171	161	149	181	181	181	185	160	195
Base												
Reported	152	183	190	190	188	188	229	229	229	233	233	233
Adjusted	0	0	0	0	0	(12)	0	0	0	0	(32)	0
Allowed	152	183	190	190	188	167	229	229	229	233	201	233