

**CALIFORNIA DEPARTMENT OF EDUCATION AND
CALIFORNIA DEPARTMENT OF SOCIAL SERVICES
AUDIT GUIDE**



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CALIFORNIA DEPARTMENT OF EDUCATION AND
CALIFORNIA DEPARTMENT OF SOCIAL SERVICES

AUDIT GUIDE

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DEFINITION OF ACRONYMS

21st CCLC	21st Century Community Learning Centers
A&I	Audits and Investigations Division
ABE	Adult Basic Education
AICPA	American Institute of Certified Public Accountants
AASC	Annual Audit Status Certification
ASE	Adult Secondary Education
AU-C	Clarified Statement on Auditing Standards
AUD	Audited Attendance and Fiscal Report or Audited Fiscal Report
CACFP	Child and Adult Care Food Program
CBO	Community Based Organization
CCDF	Child Care and Development Fund
CCFRF	Child Care Facilities Revolving Fund
CCR	California Code of Regulations
CD	Child Care and Development
CDE	California Department of Education
CDNFS	Child Development and Nutrition Fiscal Services
CDSS	California Department of Social Services
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CNIPS	Child Nutrition Information Payment System
CPA	Certified Public Accountant
CSAM	California School Accounting Manual
DHHS	United States Department of Health and Human Services
EC	California <i>Education Code</i>
ELA	English Language Acquisition
EL Civics	English Literacy and Civics Education
ESEA	Elementary and Secondary Education Act of 1965
FASD	Fiscal and Administrative Services Division
FFPB	Fiscal Forecasting and Policy Branch
FNS	Food and Nutrition Services
FT&C	Funding Terms and Conditions for Child Development Programs
G&A	General and Administrative
GAAP	Accounting Principles Generally Accepted in the United States of America
GAAS	Generally Accepted Auditing Standards
GAS	Government Auditing Standards
LEA	Local Educational Agency
MOE	Maintenance of Effort
NSD	Nutrition Services Division
OAS	Office of Audit Services
OMB	Office of Management and Budget
PA	Public Accountant
PCA	Program Cost Accounts
RFP	Request for Proposal
SFSP	Summer Food Service Program
SCO	State Controller's Office
SNP	School Nutrition Programs
USDA	United States Department of Agriculture
WIOA	Workforce Innovation and Opportunity Act

CHAPTER 100: INTRODUCTION

Chapter 100 – Introduction

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PURPOSE OF AUDIT GUIDE

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The *Audit Guide* delineates the audit requirements and guidance applicable to certain state and federal programs operated by private and public agencies under agreements with the California Department of Education (CDE) or the California Department of Social Services (CDSS). The *Audit Guide* also contains background information and audit procedures that should be considered when auditing these programs.

The *Audit Guide* is designed to supplement audit procedures and standards necessary to perform an examination in accordance with: (1) Generally Accepted Auditing Standards (GAAS); (2) *Government Auditing Standards (GAS)* issued by the Comptroller General of the United States; and (3) Title 2, *Code of Federal Regulations (CFR)*, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Grants Guidance). The *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.

Effective with audits of fiscal year 2020–21, the 2021 revision of *Audit Guide* supersedes all previous *Audit Guide* revisions in its entirety. This revision of the *Audit Guide* is effective July 1, 2021, and applies to the programs of Child Care and Development (CD), Nutrition, Adult Education and 21st Century Community Learning Centers (21st CCLC) with a fiscal year ending June 30, 2021, or later. The *Audit Guide* should be used by independent auditors in conducting audits of state and federal programs, including, but not limited to:

- CD
- Nutrition
- Adult Education
- 21st CCLC

CHILD CARE TRANSITION

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As of July 1, 2021, the Early Childhood Development Act of 2020 transferred administration of the following CD programs to CDSS:

- General CD Programs (CCTR)
- Migrant CD Programs (CMIG)
- California Alternative Payment Programs (CAPP)
- California Family Child Care Home Education Networks (CFCC)
- Stages 2 and 3 of the California Work Opportunity and Responsibility to Kids (CaWORKs) Child Care Programs (C2AP and C3AP)
- Migrant Alternative Payment Programs (CMAP)
- CD services for children with severe disabilities (CHAN)
- Child Care Resource and Referral Program (CRRP)
- The California Child Care Initiative Project (CCIP)
- Local CD Planning Councils (CLPC)
- The Child and Adult Care Food Program (CACFP)

More information regarding the transition can be viewed here: <https://www.cdss.ca.gov/inforesources/cdss-programs/calworks-child-care/child-care-transition>.

The CDE retains administration of the California State Preschool Program (CSPP), the Summer Food Service Program (SFSP), and the School Nutrition Program (SNP). The Adult Education and 21st CCLC programs are not affected by the transition and will continue to be administered by the CDE.

CDE and CDSS are committed to reducing the administrative burden of agencies affected by this transition, and to that end, have maintained consistent audit requirements by developing an integrated audit guide for both CDE and CDSS CD and nutrition programs.

Throughout the *Audit Guide* both CDE and CDSS are referenced. If an agency receives funding from both CDE and CDSS programs, it must follow the requirement for each department. For example, agencies that have both a CCTR and a CSPP child development contract would need to submit an Annual Audit Status Certification (AASC) form, extension request, audit report, and any other applicable documents to both CDE and CDSS. Specific instructions can be found in the appropriate section of the *Audit Guide*.

AUDIT REQUIREMENTS

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Public and private agencies that contract with CDE and/or CDSS to provide certain educational services such as, but not limited to, child nutrition and child development services, are required to submit to the CDE and/or the CDSS an independent audit report as required by the following laws and regulations:

- A. *California Education Code (EC)*, Section 8448, requires agencies that contract with the state under a direct service agreement to have a single independent financial and compliance audit. Such audits shall include an evaluation of the accounting and control systems of the direct service contractor and of the activities by the contractor.
- B. *EC* Section 33420, requires, as a condition to any contract with a private agency for the provision of educational services, that an audit of state and federal funds be conducted by CDE auditors, a certified public accountant (CPA), or a public accountant (PA) licensed by the California Board of Accountancy (Board). For child development services, the audit shall include all funds deposited in the child development fund.
- C. *EC* Section 41020, requires each county superintendent of schools to provide an audit of all funds under his or her jurisdiction and control, and the governing board of each Local Educational Agency (LEA) to either provide an audit of its books and accounts, including an audit of income and expenditures by source of funds, or make arrangements with the county superintendent of schools having jurisdiction over the LEA to provide for the audit.

- D. Title 5, *California Code of Regulations* (5 CCR), Section 18071, requires child development contractors to submit an acceptable annual financial and compliance audit report.

AUDITING STANDARDS

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Audits shall be conducted in accordance with: (1) GAAS, which are set forth by the American Institute of Certified Public Accountants (AICPA); (2) the standards applicable to financial audits, contained in *GAS*, as issued by the Comptroller General of the United States; and (3) federal audit requirements set forth in *Uniform Grants Guidance*, Subpart F, if applicable.

GENERAL AUDIT OBJECTIVES

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The general objectives for audits of programs addressed by the *Audit Guide* are to determine if:

- A. The agency's financial statements are presented in conformity with Accounting Principles Generally Accepted 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.
- D. The direct and indirect costs incurred and claimed for reimbursement under the contracts are reasonable, necessary, allowable, and allocable to the programs according to the benefits received.
- E. The supplemental information required by the *Audit Guide* is fairly stated in all material respects in relation to the financial statements as a whole.

AUDITOR QUALIFICATIONS

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Independent annual audits of programs administered by private not-for-profit agencies, private for-profit agencies, four-year universities, colleges, cities, and counties shall be performed by one of the following (also applies to federal audits, excluding item C):

- A. CPA licensed by the California Board of Accountancy (Board)
- B. PA licensed on or before December 31, 1970, by the Board
- C. Internal audit unit of the contractor that is not subject to the direction or authority of the manager responsible for the programs subject to the *Audit Guide*
- D. CDE's Audits and Investigations Division (A&I), the California State Auditor, or the California State Controller's Office (SCO)

SELECTING AN AUDITOR**160****A. General**

The Board maintains a website that lists considerations for selecting a CPA or PA at <http://www.dca.ca.gov/cba/consumers/select-a-cpa.shtml>. The Board also allows you to check the status of a practitioner's license by using its License Lookup Feature at <https://search.dca.ca.gov/?BD=19&TP=DC>, or you can contact the Board by telephone at 916-263-3680.

B. Peer Review

The AICPA has a detailed set of quality control requirements in place for public accounting firms. GAAS quality control standards require public accounting firm's overall auditing and attestation practice to be governed by AICPA Statements on Quality Control Standards No. 8. This standard mandates that public accounting firms must have a firm-wide system of quality control that sets overall firm standards for the conduct of all accounting and auditing engagements. This system must include a set of quality control policies and procedures as well as a system to monitor and report on compliance with this system of quality control. GAAS AU-C (Clarified Statements on Auditing Standards) Section 220 provides detailed quality control requirements as they apply to individual engagements. The AICPA also requires public accounting firms to undergo a peer review of their accounting and/or auditing practice. Third party accounting firms or other persons qualified to conduct peer reviews perform these reviews. All three elements work together to provide an overall system of accounting firm quality control and it is important that firms understand the requirements of each of these elements.

In addition, paragraph 5.60 of the 2018 revision of GAS requires that audit organizations obtain an external peer review that is sufficient in scope to provide a reasonable basis for determining if, for the period under review: (1) the reviewed audit organization's system of quality control was suitably designed, and (2) the organization is complying with its quality control system so that it has reasonable assurance that it is performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects.

Moreover, paragraph 5.84 requires that an audit organization should obtain an external peer review at least once every 3 years. Audit organizations not already subject to a peer review requirement should obtain its first peer review covering a review period ending no later than 3 years from the date an audit organization begins its first engagement in accordance with GAS. For subsequent peer reviews, the audit organization should obtain a peer review report dated not later than 3 years and 6 months from the year-end of the previous peer review.

Chapter 100 – Introduction

C. Proposal Letter

When the organization is asking for a request for proposal (RFP) letter for 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 *Audit Guide*; and (2) *Uniform Grants Guidance*, 2 CFR Part 200, Subpart F, if applicable.
 - 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 and/or CDSS, a copy of all audit documentation pertaining to the audit.
 - e. Assurance that the CPA will provide the audit report and any management/communication letters directly to the CDE and/or the CDSS (see audit report submission instructions in Section 210).

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.

REVISIONS TO THE AUDIT GUIDE

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The *Audit Guide* incorporates the latest reporting standards and requirements issued by the AICPA, Office of Management and Budget (OMB), and Comptroller General of the United States. Revisions to the *Audit Guide* are ongoing to address applicable reporting standards and requirements; auditors should use the most current authoritative language in the audit reports.

Suggestions for improving the *Audit Guide* should be addressed to CDE in writing and sent to:

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

TECHNICAL ASSISTANCE

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Agencies or independent auditors with questions about the *Audit Guide*, or the audit requirements, may contact CDE and/or CDSS as follows:

- California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814
Attention: Audit Reports Review Section
Phone: 916-322-2288
Email: AuditSubmissions@cde.ca.gov
- California Department of Social Services
Office of Audit Services
744 P Street, Mailbox 9-13-04
Sacramento, CA 95814
Attention: Audit Reports Review Bureau
Phone: 916-654-2474
Email Address: AuditsOffice@dss.ca.gov

CHAPTER 200: GENERAL REPORTING AND ADMINISTRATION

Chapter 200 – General Reporting and Administration

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AUDIT REPORT RESPONSIBILITIES

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Management of the agency being audited is responsible for the validity and accuracy of the audit report submitted to the CDE and/or the CDSS. The audit report is comprised of the agency's financial statements and the supplementary information required by the *Audit Guide*. See a list of the audit report contents in Exhibit A at the end of this chapter. Failure to timely submit an acceptable audit report may result in withheld contract payments.

The agency's auditor is responsible for performing 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 applicable auditing standards described in Section 130. In addition, the *Independent Auditor's Report* must be issued on the CPA/firm's letterhead and must indicate whether the supplementary information is fairly presented in all material respects in relation to the financial statements as a whole.

The CDE and/or the CDSS is responsible for reviewing all submitted audit reports to assess conformance with the audit reporting requirements of the *Audit Guide*.

AUDIT REPORTING REQUIREMENTS

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Audit reporting requirements vary by program and the amount of federal funds expended. The programs subject to audit under the *Audit Guide* include CD, Nutrition, Adult Education, and 21st CCLC. Not-for-profit, for-profit, local government, and local educational agencies (LEA) expending \$750,000 or more of federal funding are subject to the Single Audit requirements. LEAs are also subject to the requirements of the *SCO Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

A. Audits of Agencies with CD Programs

When an agency receives CD funding to operate one or more CD programs under contract with the state, it must follow the audit reporting guidelines presented in Section 207. Those guidelines also apply when an agency receives CD funding, plus other funding to operate Nutrition, Adult Education, and/or 21st CCLC programs.

B. Audits of Agencies without CD Programs

When an agency operates Nutrition, Adult Education, and/or 21st CCLC programs, but not CD programs, it must follow the audit reporting guidelines presented in Section 209.

Pro forma or draft audit reports may not be submitted as a substitute for the final audit report.

CHILD DEVELOPMENT CONTRACTOR AUDITS**207**

An agency that enters into a contract with the CDE and/or the CDSS to operate CD programs is referred to as a contractor. A contractor is required to submit an annual independent financial and compliance audit report of the entire organization (Contractor Audit), not just an audit report for the individual contracts or programs. 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 must be conducted biennially or sooner if there is evidence of fraud or other violation of state law in connection with any direct service contract. See *EC*, Section 8448(g).

In order for the audit report to be deemed acceptable, the contractor's auditor must conduct the associated audit in accordance with the *Audit Guide* and include the applicable reports and schedules listed in Exhibit A of this chapter. The audit report must meet the requirements stated in the *Audit Guide*, even if the contractor:

- (1) terminates the contract or 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 report could result in the contractor being liable and billed for all funds received for the affected contract(s).

LOCAL GOVERNMENT AGENCIES**208**

Local government agencies are counties, cities and/or tribal governments.

- A. A local government agency that expends less than \$750,000 in federal awards during its fiscal year must provide CDE and/or CDSS with the following information:
 1. A Comprehensive Annual Financial Report, prepared in accordance with the standards set forth by the Government Accounting Standards Board, which includes an audit opinion, government-wide and fund financial statements, and additional information. In lieu of a complete Comprehensive Annual Financial Report, local government agencies may opt to provide an independent auditor's report and financial statements.
 2. Supplementary Information and Other Required Information – See Exhibit A of this chapter, Audit Report Contents; and Chapter 300, Reporting CD Programs. If a local government agency is unable to meet the audit report deadlines, an audit report on the applicable program (Program Audit) may be submitted in lieu of a comprehensive financial statement audit report.
- B. A local government agency that expends federal awards of \$750,000 or more during its fiscal year must provide CDE and/or CDSS with an audit reporting package that contains:
 1. Comprehensive Annual Financial Report, as described above.
 2. Supplementary Information and Other Required Information listed in Exhibit A of this chapter, as applicable. A Single Audit with financial statements or a Program Audit would be acceptable in fulfilling this requirement (see Section 208.A.2).

NUTRITION, ADULT EDUCATION AND 21ST CCLC AUDITS

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For agencies that operate Nutrition, Adult Education, and/or 21st CCLC programs, but not CD programs, an audit report must be timely submitted to the CDE and/or the CDSS in accordance with the audit reporting guidelines below.

An audit of Nutrition, Adult Education, and/or 21st CCLC programs is required when an agency receives program funding and expends \$750,000 or more in federal awards during its fiscal year. This requirement applies to all for-profit and not-for-profit agencies and local governments. The audit report must include, at minimum, the Independent Auditor's Report, basic financial statements, and supplementary information as listed in Exhibit A of this chapter.

A local government agency that expends federal awards of \$750,000 or more during its fiscal year must provide the CDE and/or CDSS with an audit that includes a Comprehensive Annual Financial Report and the supplementary information listed in Exhibit A of this chapter.

If an agency expends federal awards of \$750,000 or more under a single federal program, it may submit a *Program-Specific* audit (see *Uniform Grants Guidance*, 200.501c), which requires information related to federal awards expended, internal controls, compliance, and audit findings. The agency's auditor must also include the applicable supplementary information listed in Exhibit A of this chapter.

When an agency receives Nutrition, Adult Education, and/or 21st CCLC program funding but expends less than \$750,000 in federal awards during its fiscal year, an audit is not required.

AUDIT REPORT SUBMISSION INSTRUCTIONS

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A. California Department of Education

Audit reports, quality review checklists, management letters (if applicable), and subcontractor audit reports (if applicable) may be submitted electronically through the CDE's exFiles File Transfer System. The project code and password used to upload files is mailed to agencies in mid-August. This information can also be requested by emailing AuditSubmissions@cde.ca.gov.

Alternately, the report may be mailed to:

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

B. California Department of Social Services

Audit reports, quality review checklists, management letters (if applicable), and subcontractor audit reports (if applicable) may be submitted by email to AuditsOffice@dss.ca.gov.

Alternately, the report may be mailed to:

California Department of Social Services
Office of Audit Services
744 P Street, Mailbox 9-13-04
Sacramento, CA 95814
Attention: Audit Reports Review Bureau

AUDIT REPORT DUE DATES

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The audit report submission requirements may vary depending on the programs administered, the contract status, and the type of entity. If a due date falls on a non-business day, the due date will be extended to the next business day.

A. Contractor Audit Report Deadlines (See Audit Due Dates, [Exhibit B](#))

Audit report and related action due dates for contractors with fiscal years ending June 30:

- **November 14**
Deadline to request time extension (one per year) – See [Section 212](#)
- **November 15**
Electronic submission or postmarked due date for audit reports without an approved extension
- **December 1**
List of delinquent audit reports is sent to the CDE Fiscal and Administrative Services Division (FASD) and the CDSS Fiscal Forecasting and Policy Branch (FFPB) – See [Section 214](#)

Contractor audit report due dates and related action due dates for contractors with fiscal years ending other than June 30:

- **14th day of the fifth month after fiscal year-end**
Deadline to request time extension (one per year) – See [Section 212](#)
- **15th day of the fifth month after fiscal year-end**
Due date for audit reports without an approved extension
- **1st day of the sixth month after fiscal year-end**
List of delinquent audit reports is sent to FASD and FFPB – See [Section 214](#)

Chapter 200 – General Reporting and Administration

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

1. A completed Single Audit report shall be submitted within the **earlier of 30 days after receipt of the audit by the agency, or nine months after the end of the audit period**, according to *Uniform Grants Guidance*, 200.512 (a)(1).

Some programs or government agencies have more stringent requirements. For example, when a Single Audit of a not-for-profit agency includes a CD program, the Single Audit report must be submitted by the due date of the contractor audit unless the auditee is a local government agency (Section 211.B.1.a).

- a. If the auditee is a local government agency and the Single Audit includes one or more CD programs, the Single Audit report and Comprehensive Annual Financial Report must be submitted within the timeframes specified for Single Audits.
 - b. Pro forma or draft reports may not be submitted as a substitute for the final Single Audit report.
2. Additional Requirements

- a. Adult Education Programs

The completed Single Audit report 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. 21st CCLC Programs

Non-LEA agencies operating a 21st CCLC program must submit an annual Single Audit report **by December 15 of each year**, in accordance with *EC* section 8482.3(f)(5) and guidance issued by the CDE, Expanded Learning Division to the CDE at:

California Department of Education
Expanded Learning Division
Independent Audit Report Submission
1430 N Street, Suite 3400
Sacramento, CA 95814

- c. Community Colleges

The audit reports for community colleges are due by **December 31**. Note that CD programs operated by community colleges are not subject to the audit procedures in Chapter 300.

Chapter 200 – General Reporting and Administration

d. School Districts and Charter Schools

School districts and charter schools must submit an annual Single Audit report **by December 15 of each year**, in accordance with *EC* sections 41020 and 47605.6, to:

- The SCO at:

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

- The CDE at:

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

e. Institutions of Higher Education and Hospitals

Not-for-profit institutions should follow the submission requirements in Section 211.B.1. For-profit institutions should follow submission requirements in Section 211.B.2.f.

f. For-Profit Organizations

For-profit organizations must follow the same reporting requirements established for CD contractor audits under Section 211, or nutrition only audits under Section 209.A.

g. Requirement for Submitting Reporting Package and Data Collection Form to the Single Audit Clearinghouse

According to Uniform Grants Guidance, 200.512(b), 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

Clarified Statement on Auditing Standards (AU-C Section 265), *Communicating Internal Control Related Matters Identified in an Audit*, addresses the auditor's responsibility to appropriately communicate to those charged with governance and management the deficiencies in internal control that the auditor has identified in an audit of financial statements.

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Any internal control communication, such as a management letter, must be submitted with the agency's annual audit report. If the letter has not been issued at the time the audit report is submitted, then it must be submitted directly to the CDE and/or the CDSS upon issuance.

D. Subcontracts for Operating Child Development Programs

A contractor may choose to enter into a subcontract agreement with another organization where the subcontractor operates one or more of the contractor's CD programs. The contractor shall require the subcontractor to: (1) obtain an organization wide audit that meets the requirements of this audit guide; and (2) provide the contractor with a copy of the audit. Both the contractor's and the subcontractor's final audits are due **from the contractor** by the date specified in Section 211.A.2. Note that affected subcontractors exclude those that operate CD programs only for school districts. Also, see Section 345 for guidance, including reporting on the AUD form.

SINGLE EXTENSION PER YEAR FOR CHILD DEVELOPMENT AUDITS **212**

Except for CD program contractors on conditional status, 5 CCR, Section 18073, allows 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 report 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 following instructions provided in Exhibit C by 4:00 p.m. on November 14. Note that contractors should submit an extension request form to both CDE and CDSS when they are required to submit their audit report to both departments.

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 emailed 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 emailed after the due date and time will not be considered or granted. A sample *Extension Request Form* is provided in Exhibit C at the end of this chapter.

DELINQUENT AUDIT REPORTS **214**

A. Contractor Audit

5 CCR, Section 18073, maintains that Contractor Audits of CD programs are 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.

B. Single Audit

Single Audit reports are due as provided in Section 211.B. An extension may be granted if a Single Audit includes one or more CD programs and the contractor is not

a local government agency. No extensions will be granted for local government agencies.

C. Audit of SNP (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 30 or more days past due, payments may be canceled and the participant can lose reimbursement for one or more months. If the audit remains outstanding past 90 days, the participant may be terminated from all child nutrition programs and can lose all reimbursement beginning with the first month of cancellation.

An SNP participant that has been terminated from any child nutrition program for failure to meet the audit requirement shall submit an acceptable audit report before being reinstated. The audit shall cover the program year that was not previously audited and may also include the following program year.

RECONCILIATION OF FISCAL YEARS NOT ENDING ON JUNE 30

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Agencies 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 agency'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 agency's fiscal year ends between July 1 and December 31, the reconciliation should be from the agency's fiscal year-end back to June 30 of the **current** year. If the agency's fiscal year ends between January 1 and June 29, the reconciliation should be from the agency's fiscal year-end back to June 30 of the **previous** year. See the schedule of *Audit Due Dates* in Exhibit B at the end of this chapter.

PAYMENT HISTORY REQUESTS

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The Child Nutrition Information Payment System (CNIPS) is an on-line system that provides access to claims, applications, and most nutrition program functions. The Child Development Provider Accounting Reporting Information System (CPARIS) is an online system that provides access to child development contract payment histories.

Note that CPARIS reports identify amounts paid to the agency. CDE and/or CDSS are unable to confirm the amount of revenue earned by the agency, as this amount can only be determined after audited attendance and expenditures are reported.

Agencies that receive nutrition or child development funding from CDE and/or CDSS have access to these systems. Additionally, reports from these systems are available upon request from CDE and/or CDSS; however, the auditor is expected to review the agency's records to verify payments received. Report requests for agencies with a

June 30 year-end will be held until the second week of September to allow time for year-end payments to be posted to the systems.

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 or CDSS of the need to extend the retention period. CDE and CDSS reserve 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, maintains that private agencies that receive state funds may be audited pursuant to the *EC* Section 33420. Upon request, agencies shall make all records pertaining to its state-funded programs available during regular business hours. The records shall be retained for at least five years, except for child nutrition program records (three years). Also, records for real property and equipment acquired wholly or partially with state funds shall be retained for five years after final disposition.

Child nutrition program records shall be retained for three years, according to regulations adopted by the United States Department of Agriculture (USDA). 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 three years after final disposition.

ANNUAL AUDIT STATUS CERTIFICATION FORM

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Organizations that participate in CD, Nutrition, Adult Education, and/or 21st CCLC programs must annually report to CDE and/or CDSS the total amount of federal and state funds expended during the past fiscal year on an AASC form. The AASC form does not replace the requirement to submit an annual audit report to the Federal Audit Clearinghouse (Section 211.B.2.g) and to CDE and/or CDSS (Section 206).

The AASC form must be completed, signed, dated, and returned by the deadline noted at the top of the form. For AASC form instructions, see the A&I webpage at <http://www.cde.ca.gov/fg/au/pm> or the CDSS webpage at <https://go.usa.gov/xF5ny>. The individual completing the AASC form should be familiar with the agency's financial contracts and programs. If the information requested on the AASC form does not apply to your agency for reasons such as cancellation, termination, or voluntary discontinuation of the *Audit Guide* programs, the responsible individual still must sign, date, and return the form with a notation stating the reason for non-applicability. Submit your agency's completed and signed AASC form by mail or email to the appropriate department(s) at:

- California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814
Email: AuditSubmissions@cde.ca.gov

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- California Department of Social Services
Office of Audit Services
744 P Street, Mailbox 9-13-04
Sacramento, CA 95814
Attention: Audit Reports Review Bureau
Email Address: AuditsOffice@dss.ca.gov

Failure to timely submit the AASC form may jeopardize an organization's continued participation in programs administered by the CDE and/or the CDSS.

REPORTING FRAUD

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During an audit of a program funded by the CDE, if an auditor uncovers fraud or an illegal act that has occurred, or is likely to have occurred, the auditor must report it to the CDE, A&I (see [Section 210](#) for A&I's mailing address, or call 916-322-2288). Fraudulent or illegal acts discovered relating to a program funded by the CDSS should be communicated to the CDSS, Office of Audit Services (see [Section 210](#) for CDSS's address, or call 916-654-2474). 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 6.41 indicates that auditors should include in their report on internal control and compliance the relevant information about fraud and noncompliance with provisions of laws or regulations that have a material effect on the financial statements or other financial data significant to the audit objectives and any other instances that warrant the attention of those charged with governance. In addition, Section 4.27 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 4.30 indicates that, when an agency is informed of fraud and fails to take appropriate action, auditors should report the known or likely fraud directly to parties outside the audited agency, such as to the CDE and/or CDSS.

B. Clarified Statement on Auditing Standards (AU-C Section 240)

Consideration of Fraud in a Financial Statement Audit, AU-C Section 240, issued by the AICPA, provides guidance regarding fraud, including the auditor's responsibilities. An auditor conducting an audit in accordance with GAAS is responsible for obtaining reasonable assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

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EXHIBIT A: AUDIT REPORT CONTENTS

The following reports, statements, schedules, and other information are required to meet state and single audit reporting requirements. Note: Samples of these reports, statements, and schedules have been removed for accessibility purposes. Please contact CDE at AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

- **Independent Auditors Report¹**
- **Basic Financial Statements¹:**
 - Statement of Financial Position <Balance Sheet²>
 - Statement of Activities and Changes in Net Assets <Income Statement²>
 - Statement of Cash Flows, if applicable
 - Statement of Functional Expenses, if applicable
 - Notes to Financial Statements
- **Supplementary Information:**
 - Schedule of Expenditures of Federal and State Awards (meets Audit Guide and Single Audit Requirements)
- **Child Care and Development Programs (see Chapter 300)**
 - Combining Statement of Activities <Combining Income Statement²>
 - Schedule of Expenditures by State Categories
 - Reconciliation of Child Care and Development Programs and GAAP Expense Reporting, if applicable
 - Schedule of Claimed Equipment Expenditures
 - Schedule of Claimed Expenditures for Renovations and Repairs
 - Schedule of Claimed Administrative Costs
 - Schedule of Claimed Start-Up Expenses, if applicable
 - Notes to the Child Care and Development Programs Supplemental Information
 - Audited Attendance and Fiscal Reports and Audited Fiscal Reports (AUD Forms)
 - Audited Reserve Account Activity Report (for any reserve account that has not been closed, even if amounts are zero)
 - Reconciliation of Fiscal Year Not Ending on June 30, if applicable
- **Nutrition Programs (see Chapter 400)**
 - **Child and Adult Care Food Program³:**
 - **Centers:**
 - Summary of Claim
 - Schedule of Reported, Adjusted and Allowed Meals and Earned Reimbursement
 - Schedule of Reported, Adjusted, and Allowed Eligibility
 - Schedule of Reported, Adjusted, and Allowed Meals
 - **Day Care Homes:**
 - Summary of Claim
 - 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
- **Independent Centers**
 - Summary of Claim
 - Schedule of Reported, Adjusted, and Allowed Meals, Sites and Earned Reimbursement
 - Schedule of Reported, Adjusted, and Allowed Meals and Homes
 - Schedule of Reported, Adjusted, and Allowed Eligibility
 - Reconciliation of Allowable Administrative Costs
 - Schedule of Allowed Administrative Costs
 - Schedule of Allowed Funds Retained
- **School Nutrition Program⁴:**
 - Summary of Claim
 - Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement
 - Schedule of Reported, Adjusted, and Allowed Eligibility
- **Summer Food Service Program^{4,5}:**
 - Summary of Claim
 - 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
- **Other Required Information**
 - 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,
 - Report on Compliance for Each Major Program, Report on Internal Control Over Compliance, and Report on Schedule of Expenditure of Federal Awards Required by Uniform Guidance, 2 CFR Part 200, Subpart F (Single Audit Only)
 - Schedule of Findings and Questioned Costs (all audits)
 - Any Internal Control Communication and/or Management Letter
 - Child Care and Development Programs Quality Review Checklist

Foot Notes:

- 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 4.40 for additional information on Summer Food Service Program.

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EXHIBIT B: AUDIT DUE DATES

For Contractors with a FYE	Child Care and Development – Contractor Audit Due	Child Care and Development – Audit to Include Reconciliation to State FYE	Child Care and Development – Note-for-Profit Single Audit Due	Child Care and Development – Local Government Supplementary Information Due	Child Care and Development – Local Government CAFR and/or Single Audit Due ^{2,5}	Nutrition Only – Single Audit Due	Adult Education Only – Single Audit Due
12/31/2021	5/15/2022	June 2021	5/15/2022	5/15/2022	9/30/2022	9/30/2022	6/30/2022
9/30/2021	2/15/2022	June 2021	2/15/2022	2/15/2022	6/30/2022	6/30/2022	3/31/2022
8/31/2021	1/15/2022	June 2021	1/15/2022	1/15/2022	5/31/2022	5/31/2022	2/28/2022
6/30/2021	11/15/2021	³	11/15/2021	11/15/2021	3/31/2022	3/31/2022	12/31/2021⁴
3/31/2021	8/15/2021	June 2020	8/15/2021	8/15/2021	12/31/2021	12/31/2021	9/30/2021
2/28/2021	7/15/2021	June 2020	7/15/2021	7/15/2021	11/30/2021	11/30/2021	8/31/2021
1/31/2021	6/15/2021	June 2020	6/15/2021	6/15/2021	10/31/2021	10/31/2021	7/31/2021

¹ Child Care and development contractors may be granted 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 under Section 211.B.1.a

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 audit reports for Community Colleges are due by December 31 (Section 211.B.2.c)

⁵ The audit reports for 21st CCLC agencies are due by December 15 (Section 211.B.2.b)

FYE=Fiscal year ending.

California Department of Education

Audits & Investigations Division

Exhibit C: Extension Request Form

Contractor:

Vendor No.

Fiscal Year End:

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:

Requestor Title:

Phone Number:

Return Response to (email):

Send request by mail **or** email to:

California Department of Education
Audit Report Review Unit
1430 N Street, Suite 5319
Sacramento, California 95814
Email:
AuditSubmissions@cde.ca.gov

and/or

California Department of Social
Services
Office of Audit Services
744 P Street, Mailbox 9-13-04
Sacramento, CA 95814
Email:
AuditsOffice@dss.ca.gov

For Use by CDE/CDSS 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:

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EXHIBIT D: RECONCILIATION OF FISCAL YEAR NOT ENDING ON JUNE 30

This image has been removed for accessibility purposes.

Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

CHAPTER 300: REPORTING CHILD CARE AND DEVELOPMENT PROGRAMS

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INTRODUCTION

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For CD programs, the CDE and/or the CDSS requires contractors to submit a fiscal and compliance audit each year that includes the *Audited Attendance and Fiscal Reports* or *Audited Fiscal Reports* (AUD) forms. The AUD forms represent the contractor's audited claim for reimbursement of a CD program. The AUD forms must be supported by the contractor's basic financial statements and supplementary information identified in Chapter 200, Exhibit A. Each year, the contractor must submit the following:

- Independent Auditor's Report
- Financial statements that report the agency's costs 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*
- Supplementary information that conforms with the *Audit Guide*
- The AUD forms for each of the program(s) the contractor is operating, completed in accordance with the program regulations, requirements, and Funding Terms and Conditions for Child Development Programs (FT&C)
- A completed CD Programs Quality Review Checklist

The GAAP and CD reporting requirements for expenses are 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.

Additionally, the GAAP and CD reporting of capital outlays differ as follows:

- 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. These transactions would be reported on the organization's financial statements.
- Under CD reporting, the entire capital asset, if purchased with program funding, must be expensed during the contract period; otherwise, any unspent funds might have to be returned to the CDE and/or the CDSS. These transactions would be reported on AUD forms and supporting supplementary schedules.

When GAAP and CD reporting differences are encountered, reconciliation is required, serving as a link between the financial statements and the CD supplementary information, as explained in Section 315.C.

The following sections describe how to report CD claims for reimbursement and the required supporting information.

CHILD CARE AND DEVELOPMENT PROGRAMS SUBJECT TO AUDIT

305

Most CD programs operate under one-year contracts that require reimbursable program costs to be incurred during the contract period. The contractors are required to report the results of program operations, either monthly or quarterly, depending on the contract or the contract status, to CDE's Child Development and Nutrition Fiscal Services (CDNFS) and/or CDSS's FFPB, so that they can monitor the programs and determine the amounts of the advances (apportionments) to approve under each contract. The types of program contracts and reporting form numbers are identified in the *Child Development Attendance & Fiscal Reporting & Reimbursement Procedures*, commonly referred to as the *CDNFS Fiscal Handbook*, which can be found on CDE's webpage at <http://www.cde.ca.gov/fg/aa/cd/>.

The primary program types and their reporting requirements are summarized below:

- A. **Center Based Programs:** The contractor is required to report the days of enrollment, operation, attendance, and program revenue and expenses.
- B. **Alternative Payment Programs:** The contractor is required to report the program revenue and expenses and the days of operation.
- C. **Resource and Referral Programs:** The contractor is required to report the program revenue and expenses.
- D. **Quality (Support) Contracts:** The contractor is required to report program revenue and expenses.

Any federally funded portion of CD programs in categories A and B above falls under two Catalog of Federal Domestic Assistance (CFDA) numbers:

- 1. CD Block Grant – CFDA 93.575
- 2. Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF) – CFDA 93.596

These two federal programs are part of the CCDF program administered by the U.S. Department of Health and Human Services (DHHS).

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 Program Cost Accounts (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.

The AUD forms and supporting supplementary schedules are discussed on the following pages.

COMPLETING THE AUD FORMS**310**

A CD contractor receives funds (advances) from CDNFS and/or FFPB throughout a contract period for operating a CD contract. At the end of the fiscal year, a contractor must provide an annual financial and compliance audit that includes an AUD form for each contract, plus supporting schedules and other information, which complement the financial statements. After reviewing the audit, the CDE and/or the CDSS determine whether the contractor is due a final payment of funds, or will be billed for a portion of the advances.

A. Purpose of an AUD Form

There are three types of AUD forms: (1) an *Audited Attendance and Fiscal Report* must be used for reporting center-based programs such as the California State Preschool Program; (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; and (3) an *Audited Reserve Account Activity Report* must be used for reporting reserve account(s). See examples of completed AUD forms in [Appendix A](#). Note that an AUD form must be provided for each contract, even if there are no expenditures to report on a contract. The AUD form applicable to the year being audited must be used to ensure accurate reporting.

The A&I's website, located at: <http://www.cde.ca.gov/fq/au/pm/>, contains interactive Adobe forms for use in completing AUD forms (see "Audit Guidelines/Audited Attendance and Fiscal Reports"). Also, the website provides instructions for completing AUD forms (see "Instructions"). CDSS forms and related instructions are located at: <https://go.usa.gov/xF5ny>.

Additional guidance on reporting CD program information, can be found in the CDE publication titled *Attendance and Fiscal Reporting and Reimbursement Procedures for Child Development Contracts* (see website at <http://www.cde.ca.gov/fq/aa/cd/>).

Important: When completing the AUD forms for CD contracts (e.g., form AUD 9500), note that Column A, titled "Cumulative Fiscal Year per form CDNFS 9500," is to contain amounts from Column C of the respective June 30 CDNFS forms (e.g., CDNFS 9500 Cumulative Fiscal Year). The independent auditor must:

- (1) Review the cumulative amounts (column C) on the CDNFS form to verify that the data is carried over correctly to Column A on the AUD form.
- (2) Test the information being reported on the AUD to ensure that it is accurate and properly supported.

Any adjustments should be entered in Column B on the AUD form. The resulting totals are calculated automatically on Column C of the AUD form.

Chapter 300 – Reporting Child Care and Development Programs

B. Days of Enrollment, Operation, and Attendance Section

On the applicable AUD form for center-based programs, report in Section I of the AUD form the days of enrollment, operation, and attendance for certified children enrolled in the program. Also, if applicable, report in Section II of the AUD form the days of enrollment for any noncertified children enrolled in the program. For alternative payment programs, report days of operation at the end of Section II of form AUD 9500-AP. The days of enrollment, operation, and attendance do not apply to resource and referral programs or to quality (support) contracts.

Note that days of attendance cannot be greater than total days of enrollment. More information on reporting days of enrollment, operation, and attendance can be found online in the *Child Development Attendance & Fiscal Reporting & Reimbursement Procedures*.

C. Revenue and Reimbursable Expenses Sections

Do not report on the AUD the CD contract payments (apportionments) received for the program from the CDE and/or the CDSS as revenue.

Contract payments are not considered program income, but are reimbursements that have been sent as advance apportionments. To include these contract reimbursements as income will result in an incorrect, low earnings calculation. However, the following information must be reported:

1. **Restricted Income** – Program income that may only be expended for certified children or is provided for specific limited purposes. Report restricted income only when related reimbursable expenses are reported. Examples of restricted income are as follows:
 - Child Nutrition Programs – Revenue received for the following programs:
 - CACFP
 - National School Lunch Program (NSLP)
 - School Breakfast Program (SBP)
 - Special Milk Program (SMP)
 - Seamless Summer Feeding Option (SSFO)
 - SFSP
 - Match requirement for Child Care Initiative Project (CCIP) contracts – matching fund if it was designated as restricted by the contributor.
 - County maintenance of effort (MOE) – Funds received by a county to meet the requirements of *EC* Section 8279. These funds may be considered unrestricted unless specifically restricted by the county granting the funds.
 - Transfers from reserve fund – Funds transferred from the reserve account to pay for reimbursable expenses.

Chapter 300 – Reporting Child Care and Development Programs

- 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 advanced contract payments.
- 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.

2. **Unrestricted Income** – Program income that has no restrictions regarding use, including income for services to noncertified children (e.g., family fees). It may be expended for certified or non-certified children. Report related expenses under *Reimbursable Expenses*.

Preschool Exception: For California State Preschool Programs (part-day only), federal Head Start funds used to provide preschool services are deemed to be unrestricted [EC, Section 8235(h)].

3. **Reimbursable Expenses** – Program expenses that are reasonable and necessary to the performance of the contract and otherwise comply with Section V of the contract FT&C. All expenses related to the program that are reimbursable by the contract should be reported on the second fiscal page of the AUD form.

D. Supplemental Revenue and Expenses Sections

1. **Supplemental Revenue** – Program income (restricted or unrestricted) used to pay for CD program expenses that are not reimbursable by the contract. The funds are intended to pay for projects or benefits beyond the basic CD services for certified and noncertified children. Examples of such income includes:

- Head Start
- First 5
- Quality Rating and Improvement System (QRIS) and other enhancement funds
- Race to the Top-Early Learning Challenge (RTT-ELC)
- Donations from individuals or other entities
- Fundraising income

Restricted supplemental income should only be reported when the corresponding supplemental expenses are also reported. Unexpended restricted income is considered deferred revenue and should not be reported in the AUDs until expended. Supplemental revenue is reported on the third fiscal page of the AUD form.

2. **Supplemental Expenses-** Program expenditures related to supplemental income or otherwise non-reimbursable expenses. For example, if an auditor disallowed certain costs (e.g., employee bonuses) those expenses would be reported under *Supplemental Expenses – Non-reimbursable Expenses*. Report such expenses on the third fiscal page of the AUD form.

Information entered on the fiscal pages of each AUD form is to be summarized on certain supporting schedules, described below.

SCHEDULES SUPPORTING REVENUE AND EXPENSES REPORTED ON AUD FORMS

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Three schedules support revenue and expenses reported on the AUD forms and serve as a link between the supplementary information and the financial statements.

A. Schedule of Expenditures by State Categories

The expenses reported on the fiscal pages of the AUD form for each CD contract must agree with the expenditures reported on the *Schedule of Expenditures by State Categories* (example in [Appendix A](#)). Specifically, the AUD form total expenses claimed for reimbursement must agree with the *Schedule of Expenditures by State Categories* total expenditures claimed for reimbursement. Also, the AUD form total supplemental expenses must agree with the *Schedule of Expenditures by State Categories* 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, all CD-funded equipment purchases are required to be expensed on AUD forms, even if the equipment would be capitalized under the contractor's accounting policies. Because *GAAP* would require such equipment to be capitalized rather than expensed, the differences between CD and *GAAP* reporting must be reconciled, as explained in [Section 315.C](#).

In reviewing the *Schedule of Expenditures by State Categories*, the auditor must ensure that the entity complied in all material respects with the applicable compliance requirements. That is, the auditor must examine the claims filed for reimbursement and the original records supporting the transactions recorded under the contracts identified in the *Schedule of Expenditures by State Categories* to an extent considered necessary to be assured that the amounts claimed by the contractor were reasonable, necessary, adequately supported, and allowable 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](#). The expense information reported on the *Schedule of Expenditures by State Categories*, with minor differences, is reported also on the *Combining Statement of Activities*. The *Combining Statement of Activities*, which is described below,

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includes revenue, as well as expenses, and reports them in accordance with *GAAP*.

B. 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-CD 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 financial statements on the *Statement of Activities*. If the contractor has a fiscal year ending on a date other than June 30, 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*).

When reporting on the *Combining Statement of Activities* any child care food program funding for CD centers, do **not** report food program revenue and expenses in a separate column. Instead, report each food program agreement with its identifying CNIPS ID number on a separate line, allocating food revenue amounts to the appropriate CD contracts with the identifying contract numbers and to any applicable non-CD child care programs. Account for all nutrition revenue (e.g., the total amount reported as paid on the CNIPS *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 CD contracts and for non-CD child care programs (e.g., Head Start).

C. Reconciliation of CD and *GAAP* Expense Reporting

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

When there are no differences between CD and *GAAP* expense amounts, the audit may omit the *Reconciliation of CD and *GAAP* Expense Reporting*.

Other schedules supporting the revenue and expenses reported on the AUD forms are:

- Schedule of Claimed Start-Up Expenses
- Schedule of Claimed Budget Impasse Credit Expenses
- Schedule of Claimed Equipment Expenditures
- Schedule of Claimed Expenditures for Renovations and Repairs
- Schedule of Claimed Administrative Costs

These schedules are discussed on the following pages.

**START-UP EXPENSES (SERVICE LEVEL EXEMPTION) AND
CLOSE-DOWN EXPENSES**

320

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 *FT&C*, Section V.E. Any amount authorized for start-up expenses would be provided on the face sheet of the contract. The *FT&Cs* can be accessed in the Regulations and Requirements section of the website 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. The total amount of such expenses should be reported on the “Start-Up Expenses (service level exemption)” line of the AUD, instead of on the line items where the expenses normally would be reported – **do not report them in both places**.

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.

Seasonal migrant contractors may also incur unique costs associated with starting up or closing down operations to coincide with the periods of service needed by migrant families. For additional guidance, refer to the *CDE publication titled Child Development Attendance and Fiscal Reporting and Reimbursement Procedures*. 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.E). The costs should be claimed on the appropriate AUD forms and a *Schedule of Claimed Start-up Expenses* must support the AUD forms. Appendix A of this audit guide illustrates a *Schedule of Claimed Start-Up Expenses* that also would accommodate close-down costs for migrant programs.

BUDGET IMPASSE CREDIT EXPENSE (SERVICE LEVEL EXEMPTION)

325

With prior CDE and/or CDSS approval, a contractor may be able to claim for reimbursement expenses that are incurred due to circumstances beyond the control of the contractor, including expenses resulting from a State of California Budget Impasse. Contractors who are unable to operate due to a budget impasse that must reduce staff through layoffs or unpaid furloughs may request emergency closure reimbursement for ongoing administrative and operational expenses that occurred during the closure. For additional guidance, refer to the CDE publication titled *Child Development Attendance and Fiscal Reporting and Reimbursement Procedures*.

The contractor’s expenses incurred during the period of closure due to the budget impasse must be reported on the “Budget Impasse Credit” line of the AUD, instead of on the line item numbers where the expenses normally would be reported – **do not report them in both places**. The audit must include a *Schedule of Claimed Budget Impasse Credit Expenses* supporting any budget impasse credit expenses claimed on

the AUD form. Appendix A illustrates a *Schedule of Claimed Budget Impasse Credit Expenses*.

EQUIPMENT EXPENDITURES

330

A. Equipment Acquired with CD Contract Funds

1. Equipment acquired with CD contract funds should be accounted for as either capitalized or non-capitalized equipment on the applicable AUD form. See the *California School Accounting Manual (CSAM)*, Procedure 770 for information on equipment.

Capitalized equipment should be classified in:

- Object 6400 – New Equipment
- Object 6500 – Replacement Equipment

Non-capitalized equipment should be classified in:

- Object 4300 – Materials and Supplies
- Object 4400 – Non-capitalized Equipment

The equipment expense should also be reported on the *Schedule of Expenditures by State Categories* under the appropriate object code, 4000, 6400, or 6500, and the benefiting CD contract (see Appendix A - Schedule of Expenditures by State Categories). In addition, all equipment having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the contractor for financial statement purposes, or \$5,000 must be included on the *Schedule of Claimed Equipment Expenditures*.

Contractors with a capitalization threshold less than or equal to \$5,000 should categorize equipment as follows:

- Capitalized equipment expensed on the AUD with prior written approval
- Capitalized equipment expensed on the AUD without prior written approval

Contractors with a capitalization threshold over \$5,000 should categorize equipment as follows:

- Per-Unit Acquisition Cost over \$5,000, with prior written approval
- Per-Unit Acquisition Cost over \$5,000, without prior written approval

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

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system that exceeds \$5,000, the contractor may not split purchases of individual computer components of less than \$5,000 to circumvent the approval process. 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.B.3). When prorating cost among programs, the approval threshold is based on the total purchase price of the equipment, not the cost to the program.

In the *Schedule of Claimed Equipment Expenditures*, the equipment expense should be listed under the appropriate CD contract. If the equipment purchase is designated as a start-up cost, include the equipment expenditure in a separate column, by contract number. If the cost of the equipment is shared among non-CD programs, include at least one column for non-CD programs. Show the sum of all CD contracts and non-CD programs in the “Total” column (see *Appendix A - Schedule of Claimed Equipment Expenditures*). The *Schedule of Claimed Equipment Expenditures* is required even if there are no expenditures to report.

Equipment acquired with non-CD funds for use in the CD programs should be reported on the AUD form’s supplemental page.

B. Equipment Acquired with Non-CD Funds

Capitalized equipment acquired with non-CD funds that meet the requirements of the FT&C and are utilized in CD programs may be reimbursable as depreciation or use allowance. According to 5 *CCR*, Section 18034 and *FT&C*, Section III.D, 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., CD contract funds or other government funds), or fully depreciated.
2. 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.
3. 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.
4. Depreciation and use allowance are reimbursable and may be claimed when capitalized equipment was purchased **without** using donated or public funds (e.g., noncertified family fees, unless family fees are being used to meet a federal matching requirement).

5. **Reimbursable** depreciation or use allowance should be reported as “Depreciation or Use Allowance” on **both** the *Schedule of Expenditures by State Categories* and the applicable AUD forms.
6. Equipment acquired with supplemental revenue or disallowed by an auditor should be reported on the AUD form’s supplemental page.

C. Reconciling CD and GAAP Expense Reporting

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

EXPENDITURES FOR BUILDINGS AND IMPROVEMENTS

335

- A. Expenditures for buildings and improvements may be reimbursable if they are used to:
 1. Repay existing loans for acquiring re-locatable facilities (portable classrooms) under the Child Care Facilities Revolving Fund (CCFRF). The CCFRF lease payments may be capitalized for accounting purposes, but are presented as expenditures in CD 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.
 2. Renovate, remodel, or replace child care facilities under center-based contracts. 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. Repay California Renovation and Repair Loan (CRRL) Program funds. CRRL Program funds are interest-free loans awarded to eligible CD contractors for renovation and repairs to existing facilities to ensure compliance with applicable federal and state licensing health and safety standards.

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B. Renovation and Repairs

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.

Renovation and repair costs may be charged under center-based contracts, as long as those costs are allowable under program requirements (*FT&C*, Section III.C).

C. CD Contract Funded Expenditures for Renovation and Repairs

For accounting purposes, renovation and repairs purchased under CD contracts are either capitalized or not capitalized, depending on the organization's approved capitalization threshold. Renovation and repairs should be classified in accordance with the *CSAM*:

Non-capitalized renovation and repairs would be classified under Object 5600 – "Rentals, Leases, Repairs, and Non-capitalized Improvements."

Capitalized renovation and repairs would be classified as follows:

- Object 6100 – Land Improvements: Work on old sites and adjacent ways, such as sidewalks, landscaping, retaining walls, sewers and storm drains, and fences.
- Object 6200 – Building Improvements: Work such as repairing or replacing faulty electrical wiring, painting interior or exterior walls, and repairing or replacing air conditioning or heating systems.

(See *CSAM* Procedure 330 for additional information on object codes.)

CD contract funded expenditures for renovation and repairs should be reported consistently on the AUD forms, Schedule of Expenditures by State Categories, Schedule of Claimed Expenditures for Renovation and Repairs and, as applicable, the Schedule of Claimed Start-Up Expenses and Schedule of Claimed Budget Impasse Credit Expenses.

Renovation and repair expenses should be classified as follows:

- Object 5000 – Services and Other Operating Expenses for any noncapitalized renovation and repair expenses (Object 5600)
- Objects 6100/6200 – Other Approved Capital Outlay for capitalized renovation and repair expenses charged to the contract

The renovation and repair expenditures should be reported in the same object codes on the AUD forms and the *Schedule of Expenditures by State Categories*, under the appropriate CD contract column.

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A *Schedule of Claimed Expenditures for Renovations and Repairs* (example in Appendix A) is required even if there are no expenditures to report. The contractor's capitalized expenditures for renovations and repairs must be reported on the *Schedule of Claimed Expenditures for Renovations and Repairs* (Objects 6100/6200) in the appropriate CD contract column.

The renovation and repair expenditures should be categorized as follows:

- Work costing under \$10,000 per procurement
- Work costing \$10,000 or more per procurement with prior written approval
- Work costing \$10,000 or more per procurement without prior approval

The related bidding and prior approval requirements for renovation and repairs can be found in 5 CCR, 18040(b) and *FT&C*, Sections III.E and III.F.

When determining whether the purchase price meets or exceeds the \$10,000 prior 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 or repair. 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, or split payments to vendors to circumvent the bidding and approval process.

D. Non-CD Contract Funded Expenditures for Renovations and Repairs

Non-CD funded capitalized renovations and repairs that meet the requirements of the *FT&C* and benefit the program may be reimbursable as depreciation or use allowance. Depreciation or use allowance for renovation and repairs may or may not be a reimbursable cost, depending on the source of funds used to purchase the renovation and repairs (See the *FT&C*, Section III.D).

1. Depreciation is **not** reimbursable and shall not be claimed on renovation and repairs that are donated, purchased with public funds (e.g., CD contract funds or other government funds), fully depreciated, or on idle or excess facilities. Depreciation of re-locatable buildings acquired under the CCFRF program is also not reimbursable.
2. 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.
3. Depreciation is reimbursable and may be claimed on capitalized renovation and repairs purchased without donated or public funds (e.g., parent fees, unless parent fees are being used to meet a federal matching requirement).

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4. 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.
5. **Reimbursable** depreciation should be reported under *Depreciation or Use Allowance* on **both** the *Schedule of Expenditures by State Categories* and the applicable AUD forms.
6. Renovations and repairs funded with supplemental revenue or disallowed by an auditor should be reported on the AUD form's supplemental page.

E. Reconciling CD and GAAP Expense Reporting

The reimbursable cost of a capital improvement, which would be capitalized for accounting purposes, is expensed for CD purposes. Conversely, CD reporting excludes depreciation of CD program assets that were donated or purchased with public funds, as noted in Section 335.D.1. To resolve such differences, the audit shall include the schedule titled *Reconciliation of CD and GAAP Expense Reporting* to reconcile GAAP reporting on the *Combining Statement of Activities* to the CD supplementary reporting on the *Schedule of Expenditures by State Categories*. See Appendix A for a sample of the schedules.

ADMINISTRATIVE AND INDIRECT COSTS

340

A. Administrative Costs

Administrative costs include any reimbursable indirect costs, audit costs, and the cost of activities that do not provide a direct benefit to the children, parents, or providers. Contractors may claim administrative costs that otherwise are related to the provision of CD services.

1. For center-based or alternative payment programs, report the total administrative costs included in the Reimbursable Expenses section of the AUD.
2. For Resource and Referral contracts, do not report administrative costs on a separate line, because all expenses for such contracts are administrative in nature.

On the AUD form, the individual administrative expenses must be reported on the appropriate lines in the "Reimbursable Expenses" section, and in total on the "Total Administrative Costs" line, located below the "Total Expenses Claimed for Reimbursement" line.

A contractor must maintain written documentation of the rationale used in determining direct and administrative costs (*FT&C*, Section V.D).

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. Information on indirect costs can be found in the *Uniform Grants Guidance*, Part 200.414.

Indirect costs should be reported on the “Indirect Costs” line of the AUD form, only if they are reimbursable in accordance with 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 (e.g., local governments).

Claimed indirect costs are limited to the lesser of the entity’s negotiated indirect cost rate or ten percent of modified total direct costs (MTDC). MTDC includes object codes 1000 through 5000, including expenditure categories 1000-5000 that are reported as start-up expenses and budget impasse credit expenses, and direct payments to providers. Required supporting schedules that break out the indirect cost base are illustrated in Appendix A. Also, see sections 320 and 325.

C. Schedule of Claimed Administrative Costs

The audit report must include a *Schedule of Claimed Administrative Costs* (example in Appendix A), which is part of the required Supplementary Information listed in Exhibit A of Chapter 200. These costs must be listed for each CD contract and may be presented by functional category or the object code shown on the AUD forms. The total amount of administrative costs for each contract on the schedule must agree with the total amount of administrative costs reported on the respective contract AUD forms.

REPORTING SUBCONTRACTS FOR EARLY LEARNING AND CARE SERVICES

345

An organization that operates a CD program under a direct service contract with the CDE and/or CDSS is called a contractor. The contractor may choose to enter into an agreement with another organization to provide management and/or direct services for one or more of the contractor’s CD programs, in effect, making that organization a subcontractor. Contractors and subcontractors are required to report contracts and subcontracts in a similar manner (see Section 211.D).

This audit guide section does **not** apply to subcontractors that operate CD programs for school districts, county offices of education, and community colleges.

Contractor: The contractor shall include in its audit report the following information related to its subcontract (examples are located in Appendix A):

1. *Schedule of Expenditures of Federal and State Awards:* Report the name of the subcontractor and the related contract, including the contract number and amount.

Chapter 300 – Reporting Child Care and Development Programs

2. *Notes to Financial Statements*: Disclose any subcontract agreements, the contract, and the amount of funds paid to the subcontractor.
3. *Combining Statement of Activities*: Report the subcontracted revenue and expenses in a separate column.
4. *Schedule of Expenditures by State Categories*: Report the subcontracted expenditures in a separate column. The total reimbursable expense amount for each contract (including the reimbursable expenses for the subcontract) must agree or reconcile with the total reimbursable expense amount for the contract on the *Combining Statement of Activities*.
5. AUD Forms: Report the subcontract revenue and expenses plus any revenue and expenses incurred by the contractor (e.g., administration costs). The contractor's material adjustments to revenue and expenses should be described in the comments section of the AUD form.
6. *Schedule of Claimed Equipment Expenditures*: Report subcontract expenses in a separate column.
7. *Schedule of Claimed Expenditures for Renovation and Repair*: Report subcontract expenses in a separate column.

Subcontractor: Similar to the requirements of a direct contractor, the contractor shall submit an organization-wide audit of the subcontractor, which includes all required supplementary schedules (Chapter 200, Exhibit A) and the following information:

1. *Schedule of Expenditures of Federal and State Awards*: Include a footnote identifying the contractor name and the vendor number. (See example in Appendix A).
2. *Combining Statement of Activities*: Report the subcontracted revenue and expenses in a separate column.
3. *Schedule of Expenditures by State Categories*: Report the subcontracted expenditures in a separate column.
4. AUD Forms: For "Agency Name," include the name of the subcontractor and the contractor.

For contractors and subcontractors that have different fiscal year-ends, all of the audit information is due by the contractor's audit due date. If the subcontract audit information is not submitted, the contractor's audit will be considered delinquent. It is the responsibility of the contractor to provide timely audit information for all of its CD contracts.

RESERVE ACCOUNTS

350

Reserve account funds are state CD funds that the contractor holds in reserve as deferred revenue until the funds are either properly spent in accordance with program requirements or returned to the CDE or the CDSS. There are three types of reserve accounts: (1) center-based; (2) alternative payment; and (3) resource and referral. Each account must be maintained separately due to different maximum limits and use requirements.

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

All contractors with a reserve account are required to submit with the annual audit report an Audited Reserve Account Activity Report, Form AUD 9530-A (sample in Appendix A) to verify the activity of the reserve account. The contractor should include an AUD 9530-A for each type of reserve account, even if the account has a zero balance.

The AUD 9530-A form contains two main sections, Last Year and This Year. Ensure that in the Last Year section, the beginning balance equals the ending balance from the prior year's Audited Reserve Account Activity Report. Last year's ending balance and any transfers to the reserve should agree to the prior year's Reserve Account Status Report, form CDNFS 9530. Also, if no interest was reported on a reserve account balance, the contractor must explain why in the AUD 9530-A comments section.

For additional information on reserve accounts, see the *FT&C* Section VI.S on the CDE website at <http://www.cde.ca.gov/fg/aa/cd/index.asp>.

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

355

The *Schedule of Expenditures of Federal and State Awards* is required to be completed and submitted with the annual audit to meet both state and Single Audit requirements (Chapter 200, Exhibit A) and required to report both federal and state expenditures for all program awards.

This schedule is required by the *Audit Guide* even if no federal funds were awarded, and must include each of the categories identified in the example at Appendix A. The actual CD expenditures are identified from the *Combining Statement of Activities*; however, the *Schedule of Expenditures of Federal and State Awards* should only report expenses up to the amount of the awards, which may be less than the total program expenditures per the *Combining Statement of Activities*.

NOTES TO THE CHILD CARE AND DEVELOPMENT PROGRAM

SUPPLEMENTAL INFORMATION AND QUALITY REVIEW CHECKLIST

360

As a result of the Child Care Transition, discussed in Section 115, two state departments are responsible for reviewing audit reports subject to the *Audit Guide* requirements. In order to streamline the audit report review process and reduce or eliminate the need for follow-up questions that arise as CDE and/or CDSS reviews an

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audit report submitted to meet the CD requirements, the following documents must be included with the audit report submission:

1. Notes to the CD Program Supplemental Information

This schedule must be included in the supplemental information section of the audit report and included in the auditor's determination of whether the supplementary information is fairly presented in all material respects in relation to the financial statements as a whole (Section 202). An example schedule can be found in Appendix A. The schedule must at a minimum include notes related to interest, bad debt, and related party rent but may include any other notes to address commonly asked questions. The notes should state whether any of these expenses were charged to a CD contract for the fiscal year and, if applicable, how much was charged to each contract.

2. Quality Review Checklist for CD Program Agencies

The quality review checklist is available on CDE's webpage, <https://www.cde.ca.gov/fg/au/pm/>, and CDSS's webpage, <https://go.usa.gov/xF5ny>, and is required to be completed by an agency representative (i.e. an employee of the agency or an accountant or CPA acting on behalf of the agency) prior to issuing the final audit report. The checklist is designed to alert the agency to possible errors in the audit report that will result in CDE and/or CDSS requesting a revision. The quality review checklist is a separate document from the audit report, but does need to be submitted along with the audit report. An audit report submitted without a completed quality review checklist will not be accepted.

CHAPTER 400: REPORTING NUTRITION PROGRAMS

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INTRODUCTION

400

The USDA, Food and Nutrition Services (FNS), administers nutrition programs at the federal level. The CDE, Nutrition Services Division (NSD), and the CDSS, Family Engagement and Empowerment Division, oversee nutrition programs at the state level, contracting with nonprofit, for-profit, governmental, and educational entities.

NUTRITION PROGRAMS SUBJECT TO AUDIT

410

The federal nutrition programs and corresponding CFDA numbers administered by the CDE are as follows:

1. School Breakfast Program – CFDA 10.553
2. National School Lunch Program – CFDA 10.555
3. Special Milk Program for Children – CFDA 10.556
4. SFSP for Children – CFDA 10.559

The CDSS administers the following nutrition program:

1. CACFP – CFDA 10.558

The above-listed nutrition programs are reported under three main categories: (1) SNP; (2) SFSP; and (3) CACFP. For a description of the nutrition programs, see CDE’s web page at <http://www.cde.ca.gov/ls/nu/>. Also, Financial Management of the CACFP, the largest nutrition program is governed by FNS Instruction 796-2, Rev. 4 at <http://www.fns.usda.gov/sites/default/files/796-2 Rev 4.pdf>.

Nutrition schedules are required on the CACFP and SNP reported in program-specific nutrition audits, Single Audits, and for-profit audits when there are overpayments, underpayments, or program findings. Also, the schedules are required for audit cost reimbursement requests in the CACFP.

CHILD AND ADULT CARE FOOD PROGRAM (CACFP) SPONSORS

420

The CACFP is administered at the agency level by the following types of sponsors:

1. Centers
2. Outside School Hour Care Center
3. Day Care Homes
4. Homeless/Emergency Shelter
5. Head Start
6. At-Risk Outside-School-Hour
7. Sponsor of Independent Centers
8. Adult Day Health Care Center (Not for Profit)
9. Adult Day Health Care Center (For Profit)

Child Care Centers that operate nutrition programs may be not-for-profit or for-profit. For-profit child care centers may qualify for program participation by meeting one of two criteria:

- a. 25 percent of center enrollment or licensed capacity, whichever is less, is eligible for free or reduced-price meal reimbursement according to the USDA income eligibility guidelines.
- b. 25 percent of center enrollment or licensed capacity, whichever is less, receives subsidized care (e.g., from CDE Child Development or CalWORKS).

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 website 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.

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 per the Child Nutrition Information and Payment System (CNIPS), any adjustment, and the allowed enrollment. If the schedule is being provided for audit cost reimbursement and there are no adjustments, reported enrollment must match 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)

Chapter 400 – Reporting Nutrition Programs

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. A sponsor may update its enrollment and/or eligibility data on the claim if it is financially beneficial to the center (for instance, if the number of participants eligible for free or reduced-price meals increases). An updated roster is required for those subsequent months when new enrollment/eligibility data is reported on the Claim for Reimbursement.

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. Approved Sites Reporting

An approved site is one that is an active 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 approved sites. New sites must be approved prior to being claimed for reimbursement.

a. Child Care Centers

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

b. Day Care Homes

All sites must be approved prior to being reported. For day care homes, reported enrollment and sites must be broken down by tier level. Visit the CDE website at <http://www.cde.ca.gov/ls/nu/rs/> for CACFP reimbursement

Chapter 400 – Reporting Nutrition Programs

rates by tier level. The number of sites claimed by the sponsor may not exceed the number of "active" sites approved. 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 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.

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. 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 audit adjustments are made to meal data, the adjustments must be reflected on the *Schedule of Findings and Questioned Costs*. Adjustments exceeding \$600 must also be reported on the Claim for Reimbursement.

Chapter 400 – Reporting Nutrition Programs

Independent 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.

C. Disallowed Meals

During an audit of meal reimbursement, the types of meals that the auditor must disallow may include, but are not limited to:

1. All CACFP Sponsors (except day care homes)

- 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 unapproved centers
- Meals served that exceed the number of allowed meals claimed daily for each enrolled participant
- Meals that do not meet the approved meal pattern requirements

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 unapproved sites
- 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 approved as income eligible
- Meals served to the provider's own children when no other enrolled children are participating

CI. Program Income

Day care homes must report income generated by the CACFP (e.g. interest earned on unspent funds, audit cost reimbursements, food sales, donations) as an offset to CACFP administrative expenditures.

CII. Administrative Advances for Day Care Homes

The procedures for reporting advances are listed in the *CACFP Claim for Reimbursement Instructions* located on the CDE website at <https://www.cde.ca.gov/ls/nu/cc/cacfpmanualsec5-1.asp>.

Chapter 400 – Reporting Nutrition Programs

The administrative advance is calculated on the basis of the estimated administrative reimbursement of “rates x 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 considered offsetting income 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 agency’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.

CACFP REQUIRED AUDIT REPORT SCHEDULES

424

The schedules listed below are required for all program-specific audits of the CACFP. The schedules are required to report: (1) CACFP findings; (2) over/underpayments; and/or (3) audit cost reimbursement requests.

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. Determination of Reported, Adjusted, and Allowed Administrative Cost
7. Determination of Budget Deficit (Adjustments)
8. Determination of Allowed Provider Payments

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

CACFP AUDIT COST REIMBURSEMENT

426

- A. Agencies may request reimbursement for audit costs specific to the CACFP. However, the agency’s independent auditor must have audited the CACFP funds and included the following schedules in the audit report:
 - 1. Summary of Claim
 - 2. Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement
 - 3. Schedule of Reported, Adjusted, and Allowed Eligibility (if applicable)
 - 4. Schedule of Reported, Adjusted, and Allowed Meals

- B. In order to request audit cost reimbursement, the agency must:
 - 1. Ensure that audit costs were approved in the agency’s CACFP budget
 - 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 CDSS a copy of:
 - a. The audit engagement letter
 - b. Cancelled checks totaling the amount of audit cost
 - c. Auditor’s itemized invoice, detailing cost components and listing the audit cost for each program/fund audited

To request audit cost reimbursement, the agency must submit a letter and supporting information by mail or email to:

California Department of Social Services
Office of Audit Services
744 P Street, Mailbox 9-13-04
Sacramento, CA 95814
Attention: Audit Reports Review Bureau
AuditsOffice@dss.ca.gov

Note: Audit costs cannot be reimbursed until all outstanding child nutrition accounts receivable have been paid.

SCHOOL NUTRITION PROGRAMS (SNP)

430

Three federally-funded programs fall under the category of school nutrition:

- 1. School Breakfast Program – Funding for schools and other agencies to provide nutritious breakfasts to children at reasonable prices.
- 2. National School Lunch Program – In addition to financial assistance, the program provides donated commodity foods to help reduce lunch program costs.

3. Special Milk Program for Children – Funding to schools and other agencies to provide milk to children at reasonable prices.

SNP REIMBURSEMENT CLAIMS REPORTING 432

The SNP agencies are required to use the "Actual Count" claiming method which requires an accurate reporting of each child's eligibility and the actual number of meals served to children at the point of service. For further details, refer to the SNP Claiming Types and Instructions and the SNP Reimbursement Instructions Booklet located on the CDE web page at <http://www.cde.ca.gov/fg/aa/nt/snp.asp>.

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 an accurate reporting of each child's eligibility and the actual number of meals served to children at the point of service.

CHAPTER 500: REPORTING ADULT EDUCATION PROGRAMS

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ADULT EDUCATION PROGRAMS SUBJECT TO AUDIT**505**

The Adult Education programs serve state and national interests by providing life-long educational opportunities and support services to all adults. The Adult Education 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 Innovation and Opportunity Act (WIOA) (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 learners to become more employable, productive, and responsible citizens through literacy.

- Adult Basic Education (ABE) – The goal of the ABE program is to improve students' basic skills in language arts and mathematics in order to help the students develop job readiness skills, leading to employment, job advancement, or preparedness for adult secondary education classes.
- Adult Secondary Education (ASE) – The goal of the ASE program is to provide a curriculum that enables adults to attain a high school diploma or a high school equivalency certificate. Subjects include mathematics, language arts, history, science, government, and other courses necessary to complete the required credits or gain the knowledge necessary to attain a high school diploma or high school equivalency certificate.
- English Language Acquisition (ELA) – This program of instruction is designed to help learners achieve competence in the English language.
- English Literacy and Civics Education (EL Civics) – WIOA Section 231 EL Civics activities include:
 - Civic Participation – Contextualized programs that support the design, creation, implementation, and delivery of instructional activities that integrate civics education content with existing ELA courses.
 - Citizenship Preparation – Courses that use ELA methodologies and citizenship preparation material to prepare learners to take and pass the U.S. Citizenship and Immigration Services oral and written citizenship tests.
- Integrated English Literacy and Civics Education – This program strives to enable English language learners to achieve English language competency and acquire the basic and advanced skills needed to function effectively as parents, workers, and U.S. citizens (as outlined in WIOA, Section 231(b) activities). WIOA, Section 243 has an added dimension that language and literacy

Chapter 500 – Reporting Adult Education Programs

objectives must be provided as a program in combination with integrated education and training.

For additional information on Adult Education programs, see the CDE website at <http://www.cde.ca.gov/sp/ae/>.

AUDIT REPORTING AND ADMINISTRATION

510

The Adult Education entities and subcontractors that receive and expend federal funding of \$750,000 or more during a fiscal year must meet the Single Audit requirements of *Uniform Grants Guidance*, Subpart F. General reporting requirements for Adult Education entities and subcontractors that receive and expend federal funding of less than \$750,000, 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 21st CENTURY COMMUNITY LEARNING CENTERS
PROGRAM**

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21st CENTURY COMMUNITY LEARNING CENTERS **615**

The purpose of the 21st CCLC 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 website at <https://www.cde.ca.gov/ls/ex/fundingop.asp#centurycommunitylearningcenters21st>.

The CFDA Number of the 21st CCLC program is 84.287.

AUDIT REPORTING AND ADMINISTRATION **620**

The 21st CCLC entities and subcontractors that receive and expend federal funding of \$750,000 or more during a fiscal year must meet the Single Audit requirements of *Uniform Grants Guidance*, Subpart F. General reporting requirements for 21st CCLC entities and subcontractors that receive and expend federal funding of less than \$750,000, are addressed in [Chapter 200](#).

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

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INTRODUCTION

The programs identified below are funded by or through the CDE or the CDSS. 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 agency's compliance with program requirements.

PROGRAMS SUBJECT TO COMPLIANCE AUDITING PROCEDURES

702

The programs subject to compliance auditing procedures include the state- and/or federally-funded CD, Nutrition, Adult Education, and 21st CCLC programs.

A. Child Care and Development Programs

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

1. Center-based—Examples include General Childcare Centers, California 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

Child development contracts are funded through a combination of state and federal funds. The contracts will specify on the face sheet the amount of federal funding included in the total contract amount and the CFDA, identified as an "FC" number. If the contract has more than one funding source, there will be an attached encumbrance page with multiple funding blocks. The funding block will also identify different state PCA numbers associated with the state funds and the federal funds; and the remittance advice that accompanies each state check will specify the amounts of funds by these PCA numbers. For example, an apportionment payment will have a five-digit PCA number that begins with "1" to designate federal funds, or "2" to designate state funds. Therefore, contractors that are required to report the amount of federal funding they receive will need to pay particular attention to the PCA numbers that identify federal funds.

B. Nutrition Programs

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

C. Adult Education Programs

The Adult Education programs subject to audit are described on the CDE website at <http://www.cde.ca.gov/sp/ae/>.

D. 21st CCLC: <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 *Uniform Grants Guidance* located in 2 *CFR*, Part 200, and related Appendices. The federal programs governed by the *Audit Guide* are identified below. The CFDA numbers for applicable federal programs must be included in the *Schedule of Expenditures of Federal and State Awards* (see Appendix A).

- A. Child Development
 - 1. CD Block Grant – CFDA 93.575
 - 2. Child Care Mandatory and Matching Funds of the CCDF – CFDA 93.596

- B. Nutrition
 - 1. School Breakfast Program – CFDA 10.553
 - 2. National School Lunch Program – CFDA 10.555
 - 3. Special Milk Program – CFDA 10.556
 - 4. CACFP – CFDA 10.558
 - 5. SFSP for Children – CFDA 10.559

- C. Adult Education
 - 1. Basic Grants to State – CFDA 84.002

- D. 21st CCLC – CFDA 84.287

COST PRINCIPLES

706

The cost principles that establish guidelines for determining allowable costs applicable to federal and state programs are contained in the *Uniform Grants Guidance*, Subpart E.

The CDE and the CDSS enforce the requirements of the *Uniform Grants Guidance* as part of its responsibility to ensure that the federal and state awards made to child development agencies and nutrition sponsors (sub-recipients) are used in accordance with the federal and state laws and regulations and the terms of the contracts.

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 for direct and indirect costs supplements the cost allocation compliance audit procedures described in Section 718.

DIRECT AND INDIRECT COSTS

707

A. Direct and Indirect Costs

Costs claimed for reimbursement 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 agency. Direct costs provide measurable, direct benefits to a particular program. Indirect costs are organization-wide general management

Chapter 700 – Auditing Compliance with Program Requirements

costs that cannot be readily assigned to one specific program or one specific line item within a program.

1. Direct Costs

Generally, if an agency operates one program, all costs are direct costs of that program. However, if an agency 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 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.

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).

The *FT&C*, Section V.C., addresses requirements pertaining to indirect costs. Also, the *CCR* provides regulatory guidance at Title 5, Section 18013(n), *Definition of Indirect Cost Allocation Plan*, and Title 5, Section 18034(k), *Indirect Cost Rate per Approved Plan*.

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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
<ul style="list-style-type: none"> • Rent, Utilities • Maintenance • Insurance 	<ul style="list-style-type: none"> • Square footage usage 	<ul style="list-style-type: none"> • Room measurements • Floor plans
<ul style="list-style-type: none"> • Salaries • Benefits 	<ul style="list-style-type: none"> • Employee hours worked on each program 	<ul style="list-style-type: none"> • Time Sheets
<ul style="list-style-type: none"> • Legal Fees • Audits 	<ul style="list-style-type: none"> • Direct hours charged 	<ul style="list-style-type: none"> • Invoices
<ul style="list-style-type: none"> • Training 	<ul style="list-style-type: none"> • Staff trained 	<ul style="list-style-type: none"> • Invoices • Training records
<ul style="list-style-type: none"> • Human Resources • Information Technology • Accounting 	<ul style="list-style-type: none"> • Number of children enrolled 	<ul style="list-style-type: none"> • Attendance reports for Child Development, or Nutrition Programs

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 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

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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 21st CCLC), refer to *Uniform Grants Guidance*, 2 CFR Part 200, Subpart E, Subsection 200.430, *Compensation–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, 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, then the employee's time 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 organization's base costs are comprised of its modified total direct costs, defined by *Uniform Grants Guidance* as, "all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award)." Costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both.

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 DHHS is the cognizant agency for all state-wide central service cost allocation plans and public assistance cost allocation plans. The DHHS Program Support Center handles cost allocation and indirect cost negotiations for government and non-profit organizations. However, the DHHS does not approve indirect cost rate proposals for a local governmental unit when the DHHS' 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.

For hospitals, the DHHS serves as the main cognizant agency. An organization with a cognizant agency must submit an annual formal indirect cost rate proposal to the DHHS' Program Support Center for approval. The Department of the Interior is the cognizant agency for all Indian tribal governments.

F. Technical Assistance

The CDE's A&I and the CDSS's Office of Audit Services (OAS) review annual financial and compliance audits submitted by contractors, and conduct performance audits or limited scope reviews of selected programs. Consequently, the A&I and the OAS do not provide detailed recommendations for developing an organization's cost allocation plan, which later could become the subject of their review. The A&I and the OAS must maintain their independence under GAS, as issued by the Comptroller General of the United States.

MATERIALITY AND EXTENT OF COMPLIANCE TESTING

708

The materiality level for determining compliance with program requirements differs from the materiality level for auditing financial statements. The AICPA Audit Guide generally addresses materiality in terms of the impact on the financial statements as a whole. The *Audit Guide* focuses on materiality involving compliance aspects of specific programs. In child development, nutrition, adult education and 21st CCLC programs, the auditor is required to report program noncompliance in the Schedule of Findings and Questioned Costs 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.

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 that the agency has complied substantially with the *FT&C* for CD programs, and other state and federal requirements associated with carrying out child development, nutrition, adult education and/or 21st CCLC programs.

COMPLIANCE AREAS

710

Each of the following compliance areas, unless otherwise indicated, is applicable in audits of child development, nutrition, adult education and 21st CCLC 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 identified in *Uniform Grants Guidance*, Subpart E – Cost Principles, 5 *CCR*, sections 18033-18037, and in the *FT&C*, Section V.
- **Cash Management** – Addresses how an agency administers and safeguards cash received to operate its programs.
- **Eligibility** – Determines that an agency ensures that only eligible individuals receive appropriate assistance under the programs.
- **Equipment** – Ascertains that the agency adequately accounts for, safeguards, maintains, inventories, and properly disposes of equipment acquired with program funds.
- **Matching** – Determines that the minimum amount or percentage of contributions of matching funds were provided.
- **Procurement** – Determines that goods and services were acquired using appropriate procedures and in a manner that promotes open and free competition.
- **Program Income** – Determines that program income, such as family fees, was correctly earned (charged and collected), reported, and expended in accordance with program requirements.
- **Reporting** – Ensures all submitted reports are accurate and properly supported in accordance with program requirements.
- **Subcontract Monitoring** – Ensures that an agency adequately tracked a subcontractor’s compliance with program requirements.

COMPLIANCE AUDIT PROCEDURES

712

The audit procedures in the *Uniform Grants Guidance*, Compliance Supplement are developed to assist auditors in examining compliance with federal program requirements. These procedures are applicable, but not limited to the following:

- A. The audit procedures presented in this chapter consider the audit procedures contained in Compliance Supplement that contains requirements applicable to:

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1. The DHHS, including CD Block Grant, and Child Care Mandatory and Matching Funds of the CCDF
 2. The U.S. Department of Education, including the Adult Education Program and the 21st CCLC Program
 3. The U. S. Department of Agriculture, including the CACFP, and other nutrition programs (except the commodities program)
- B. The compliance audit procedures contained in the *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 gather and assess information to identify and assess risks of fraud that are significant within the scope of the audit objectives or that could affect the findings and conclusion of the audit (Section 260).
- C. The auditor should report noncompliance and inadequate internal controls 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. The auditor should also report any associated questioned costs (Section 720).

GENERAL AUDIT REQUIREMENTS

General audit requirements apply to both contractor audits and Single Audits. The audit compliance areas for internal controls and cost allocation, presented below, contain audit objectives and audit procedures.

INTERNAL CONTROLS

714

The following audit procedures for evaluating and testing the operating effectiveness of internal controls are based on *Uniform Grants Guidance*, Compliance Supplement.

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

Procedures

1. Interview appropriate management officials and staff familiar with the internal accounting and other management controls applicable to program 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 that the agency adequately separated significant financial duties and responsibilities among staff.
4. Evaluate the agency's policies for authorizing expenditures and signing checks.

5. Identify and report 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.P.

GRANTS MANAGEMENT

716

The federal grants management requirements for administering programs are set forth in *Uniform Grants Guidance*, Subpart D—Post Federal Award Requirements, which include:

1. Standards for Financial and Program Management
2. Property Standards
3. Procurement Standards
4. Performance and Financial Monitoring and Reporting
5. Records Retention and Access

Applicable state grants management standards for administering programs are located in the *EC*, *5 CCR*, *FT&C*, Child Development Attendance and Fiscal Reporting & Reimbursement Procedures, Management Bulletins, and *CSAM*.

COST ALLOCATION

718

Audit Objective: Determine that the contractor's direct costs and indirect costs (if any) were assigned to state and federal programs using allocation bases that accurately measured the benefits provided to each program.

Cost Allocation Audit Procedures for Agencies other than Local Governments: These audit procedures are based on the *Uniform Grants Guidance*, Subpart E and the Compliance Supplement.

- Direct Costs
 1. 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.D).
 2. Determine that direct costs are net of credits, refunds, insurance recoveries, and adjustments for uncashed checks.
 3. If the agency claimed indirect costs, verify that these indirect costs are not also claimed under direct costs (e.g., depreciation of equipment).
 4. Verify direct costs are actual costs supported by appropriate documentation, such as vendor invoices, canceled checks, and/or time and attendance records. Verify that they are charged to the correct accounts, for the appropriate amounts, and during the applicable period.
 5. Determine that costs have been assigned to the correct cost objective or activity.

- Indirect Costs

1. Determine that the grant or contract permits indirect costs (the Adult Education Program and some CD contracts do not permit indirect costs).

If a CD contractor claimed indirect costs, verify that the contractor has a written cost allocation plan available for review (*FT&C*, Section V.C). The plan should be approved by the board of directors (not-for-profits), or other appropriate governing body (local governments). In addition, the contractor's annual audit must include the various bases used to allocate costs.

2. Review the agency's indirect cost allocation plan, or indirect cost rate proposal for reasonableness.
3. If the agency uses the Direct Allocation Method, test the data supporting the proposed allocation bases to determine that data are complete, accurate, appropriate, and properly documented.
4. Determine that the indirect cost rate was applied in accordance with the approved rate agreement, and to the proper base amounts.
5. 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.
6. Determine that the indirect cost rate was within approved limits. For instance, in a CD program, the agency's indirect cost rate may not exceed ten percent of the modified total direct costs, or ten percent times reimbursable expense line items 1000 through 5000, including expenses for these cost categories reported as Start-Up expense; plus any provider payments. See *FT&C*, Section V.C; and the *Child Development Attendance and Fiscal Reporting and Reimbursement Procedures – Reporting – Expenses – Indirect Costs*.

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. 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 the reimbursable expense on the appropriate AUD form (Section 310.A). The auditor also 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 –The identification number and type of each affected contract, grant, or other agreement.

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2. **Criteria** – Identify the laws, regulations, contract requirements, and/or grant agreements that are relevant to the audit, such as the applicable section of the *EC*, *CFR*, *CCR*, or *FT&C*.
3. **Condition** – The situation that exists. Determine and document the condition during the audit.
4. **Questioned Costs** – Quantify the dollar amount of a non-reimbursable expenditure.
5. **Effect and Context** – Describe the outcome or consequence of the problem and the scope of testing. Document the work performed that resulted in the finding, including the sample size.
6. **Cause** – Identify the reason or explanation for the condition.
7. **Recommendation** – Identify the actions necessary to correct deficiencies and findings identified during the audit.
8. **Views of Responsible Officials and Planned Corrective Action** – Obtain management’s response to the finding(s) and recommendation(s), and identify the steps management plans to take in resolving the finding(s) and a specific timeline.

Additional guidance in developing findings is provided in *GAS*.

- B. Single Audits must follow the audit reporting requirements of the *Uniform Grants Guidance*, Subpart F including subsections .515 and .516 regarding reporting and audit findings. Also, see Section 211.B of the *Audit Guide*.
- C. Auditors should refer to the reporting standards for financial audits in Chapter 4 of *GAS* to determine the types of deficiencies to be reported.

SPECIFIC AUDIT REQUIREMENTS

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

1. CD (Section 730, below)
2. Nutrition (Section 740)
3. Adult Education (Section 750)
4. 21st CCLC Program (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 CD 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 and/or the CDSS. Operation of CD programs by contractors is governed by the Act, described above, and the following regulations and guidelines:

- 5 CCR, Chapter 19, Section 18000 et seq.
- Applicable Contracts' *FT&Cs*
- *CSAM*
- *Uniform Grants Guidance*, Subpart E – 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 deficiencies.

A. CD Allowable Activities and Costs

Audit Objective: Determine that state and federal funds were expended only for allowable activities and costs.

Procedures

1. Ensure that the contractor has a system of internal control which provides reasonable assurance that all charges are accurate, allowable, and properly allocated.
2. Select a sample of hourly and salaried employees representing personnel that are funded by single and multiple cost objectives for review.
3. Determine that salaries and wages are based on records that accurately reflect the work performed. These records must:
 - (a) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
 - (b) Be incorporated into the official records of the contractor.
 - (c) Reasonably reflect the total activity for which the employee is compensated by the contractor, not exceeding 100 percent of compensated activities.

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- (d) Encompass both federally assisted and all other activities compensated by the contractor on an integrated basis, but may include the use of subsidiary records as defined in the contractor's written policy.
- (e) Comply with the established accounting policies and practices of the contractor.
- (f) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and a non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Budget estimates (e.g., estimates determined before the services are performed) alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes.

4. Reconcile employee time accounting records to the payroll register to ensure salaries and wages are accurately charged based on the actual hours the employees worked.
5. Select a representative sample of expenditures and verify that the costs were 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 V.B, V.H, and VI.E).
6. Verify that the cost was charged to the appropriate contract period (*FT&C*, Section V.I).
7. Verify that the contractor's direct costs and any indirect costs (if permitted) were assigned to programs using allocation bases that accurately measure the benefits provided to each program, such as actual hours worked for payroll, square footage for rents, or actual amount charged for audit fees (*CSAM*, procedures 910 and 915; *FT&C*, Section V.C; and *Audit Guide* Section 718, *Cost Allocation*).
8. Verify that the contractor maintains written documentation for the justification used to determine administrative costs, that the justification is reasonable, and that costs are properly categorized between direct and administrative (*FT&C*, Section V.D).
9. Verify that depreciation expense was not claimed on facilities and equipment (*FT&C*, Section III.D) that were:
 - a. Purchased with CDE, CDSS or other public funds
 - b. Donated to the contractor

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- c. Considered to be idle or excess facilities
 - d. Fully depreciated
10. 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.P).
11. If the contractor is claiming an expense that involves the renting of property, either land or building, that is owned by affiliated agencies, officers or other key personnel of the contractor or their families, ensure that a fair market rental estimate is obtained from a licensed independent appraiser (*FT&C*, Section II.P).
- a. A new fair market rental estimate is required for each change, adjustment or escalation to any reimbursable costs under a transaction.

B. CD Cash Management

Audit Objective: Determine that the contractor followed procedures to: (1) administer and safeguard CD funds received; and (2) report interest earned on contract payments and any reserve accounts.

Procedures

1. Identify procedures established by the contractor to administer and safeguard funds and to account for and report any income earned on program funds (*Uniform Grants Guidance*, Part 200.305).
2. Determine that the contractor established a Child Development Fund as specified in 5 *CCR* Section 18064.
3. If the contractor has a CD reserve account, determine that the contractor's reserve account funds are maintained in an interest-bearing account within the Child Development Fund (*EC* Section 8450).
4. Verify that the contractor properly accounted for and reported reserve account amounts.
5. Verify that any interest earned on child development contract funds is placed in a separate account within the Child Development Fund and properly reported, as required (*EC* sections 8450(f) and 8328 and 5 *CCR* Section 18064).
6. For alternative payment programs and other programs with direct payments to providers, identify checks that were issued to providers that 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).

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7. Determine that the contractor made a reasonable effort to contact payees and identify the plan for reclaiming the funds. If the checks were written off in a subsequent fiscal year, determine that the contractor correctly reported amounts on the appropriate AUD forms under Restricted Income, Uncashed Checks to Providers.

C. CD Eligibility

Audit Objective: Ensure that eligibility was properly determined and documented, and that only eligible recipients received services under the contract.

Procedures

1. Identify eligibility requirements defined in the *FT&C* for the applicable program and fiscal year under Regulations and Requirements on the webpage at <http://www.cde.ca.gov/fg/aa/cd>. 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.
2. Select a representative sample of family files for review to determine if the file contains all required elements, including a completed application for services, documentation of eligibility status, and documentation of need, if required.
3. Verify that the eligibility of recipients was properly determined and documented according to eligibility program requirements.
4. Verify that only eligible children in center-based programs were claimed by the contractor.
5. Verify that provider payments were made only for eligible children in alternative payment programs (including CalWORKS) and/or family child care home education networks.

D. CD Attendance

Audit Objective: Determine that the contractor has a system in place to properly document child attendance.

Procedures

1. For center-based contractors, select a representative sample of attendance records for review to determine that the contractor maintained daily sign-in/sign-out attendance sheets that documented the time of arrival and departure of the child with the following:
 - a. Full signature of the parent or authorized adult for both arrival and departure of the child.

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- b. Full signature of the staff person designated to record the time of arrival and departure, if the child is not dropped off or picked up by a parent or other authorized adult.
 - c. First and last initials of the staff person designated to record the time when a school-age child departs for and returns from school during the day.
 2. For alternative payment program (including CalWORKS) and/or family child care home network providers, select a representative sample of monthly attendance records or invoices and verify that they include, at a minimum:
 - a. The dates and actual time of the child's arrival and departure each day.
 - b. Full signature of the parent or authorized adult of the child receiving services and the provider attesting under penalty of perjury that the information is true and accurate.
 3. Ascertain that the contractor's attendance accounting records contain verification that includes the following information to support excused absences that were claimed for reimbursement:
 - a. Name of child
 - b. The date(s) of absence
 - c. The specific reason for the absence
 - d. The parent's or designated staff person's signature if verification is made by telephone
 4. Select a sample of excused absences and verify that absences are due to illness or quarantine of the child or parent, family emergency, court-ordered visitations or a reason that is clearly in the best interest of the child.
 5. 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.
 6. Determine that the contractor's governing board adopted policies regarding the following:
 - a. Circumstances constituting excused absences for "family emergencies" and absences considered to be "in the best interest of the child"
 - b. Circumstances defining unexcused absences

E. CD Equipment

Audit Objective: Determine that the contractor maintains required records for equipment purchased with CD contract funds and adequately safeguards, maintains, and disposes of such equipment.

Procedures

Obtain the contractor's policies and procedures for equipment management. Determine that they comply with the state's policies and procedures (*CSAM* Procedure 770) and with the grants management requirements listed in Section 716.

1. Ensure the contractor's inventory records include a description of the equipment, serial number, source of the equipment, acquisition date, cost, location, use and condition of the equipment, and disposal date, if any (*FT&C*, Section III.H).
2. Verify that the contractor conducts a physical inventory of equipment at least every two years and reconciles it with property records (*FT&C*, Section III.H).
3. Ensure the contractor has a control system in place to safeguard equipment and prevent loss, damage or theft (*FT&C*, Section III.H).
4. Select a representative sample of equipment purchases during the reporting period for review to ensure contractors are meeting program requirements, including prior approval and bidding requirements (*FT&C*, Section III).

F. CD Depreciation and/or Use Allowance

Audit Objective: Ensure that the contractor claimed the proper amount of depreciation or use allowance for equipment.

Procedures

1. Verify the appropriate amount of depreciation or use allowance was claimed for equipment (*FT&C*, Section III.D).
2. Verify depreciation or use allowance was claimed for only eligible, appropriate capital assets (*FT&C*, Section III.D).
3. Ensure that the contractor did not claim depreciation on land or equipment that was fully depreciated, donated, or purchased with public funds (*FT&C*, Section III.D).
4. Ensure that the contractor did not claim both depreciation and use allowance on the same asset.

G. CD Matching and Maintenance of Effort

Audit Objective: Ensure that the contractor: (1) met all program matching requirements; and (2) maintained required service or expenditure levels.

Procedures

- Matching
 1. Review all contract face sheets to determine if the contracts under review have any matching requirements.
 2. Perform tests to ensure that the contractor included a match portion from local resources.
 3. Verify that the match amount, both income and expenses, were properly reported in accordance with program requirements.
 4. Determine sources of matching contributions and verify that they were from an allowable source (*Uniform Grants Guidance*, Part 200.306).
 5. Perform tests to ensure that the determination of value placed on donated goods or services used to meet the match requirements are in accordance with applicable cost principles and program requirements (*Uniform Grants Guidance*, Part 200.306).
- Level of Effort – Maintenance of Effort
 1. Verify that the MOE funds were used exclusively for child development programs (*EC 8279 and 8279.1*).
 2. Verify that the MOE funds were reported correctly.
 3. Determine if MOE funds are required to be used for specific children or for the benefit of all children.
 - If MOE funds were designated to be used for specific children:
 - a. Ensure that the children’s days of enrollment are reported on the AUD form under Noncertified Children.
 - b. Verify that any MOE funds for noncertified children are reported as unrestricted income on the AUD form.
 - If MOE funds are used to benefit all children:
 - a. Verify that MOE funds are reported as restricted income on the AUD form.

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- b. Verify that costs associated with MOE funds are reported as reimbursable expenses on the AUD form.

H. CD Procurement

Audit Objective: Determine that the contractor complied with the procurement requirements of the contract and applicable laws and regulations. See *Uniform Grants Guidance*, Subpart D – Post Federal Award Requirements and *FT&C*, sections III and IV.

Procedures

1. Identify procurement requirements of the contract or grant agreement under review.
2. Select a representative sample of procurement transactions to test.
3. Verify that the contractor (private and public) complied with applicable requirements, such as obtaining prior approval from the Early Education and Care Division (5 CCR, sections 18040).
4. For a **private** contractor, verify that the contractor complied with subcontract bid requirements (5 CCR, sections 18027-18029). All equipment purchases, replacements, and improvements that exceed \$5,000 must meet the bidding requirements.
5. For a **public** contractor, verify that the contractor complied with the applicable sections of the *Public Contract Code* for obtaining bids for equipment purchases.

I. CD Program Income

Audit Objective: Ensure that program income was correctly calculated, recorded, reported and expended in accordance with program requirements.

Procedures

1. Review the laws, regulations, and provisions of contracts or grant agreements applicable to the program, including 2 CFR Part 200, 5 CCR, *FT&C*, and the *Child Development Attendance and Fiscal Reporting and Reimbursement Procedures*.
2. If program income was earned, 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) expending program income.
3. Verify on a test basis that income earned on program funds was properly recorded in the accounting records and reported on the AUD form.

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4. Determine that the contractor charged and collected fees according to program requirements. Specifically:
 - a. Select a representative sample of non-subsidized children to ensure that child care fees were properly charged, paid, recorded and reported (*EC* Section 8224 & 8267).
 - b. Test a representative sample of family fees for subsidized children to ensure they were properly assessed, collected, recorded and reported (*EC* sections 8224 & 8267).
5. Determine that program income was expended in accordance with program requirements (5 *CCR* sections 18057 & 18064).

J. CD Reporting

Audit Objective: Ensure that the attendance and fiscal reports (AUD forms) are accurate, complete, and properly supported for each CD contract.

Procedures for Reporting Enrollment, Operation, and Attendance

1. Determine that the contractor accurately classified and reported the days of enrollment, operation, and attendance on the CDNFS forms (*FT&C*, sections VI.C, VI.D, and VI.F).
2. Verify that the contractor has sufficient documentation to substantiate the enrollment and attendance information as well as days of operation reported.

Procedures for Reporting Revenue

1. Determine that the revenue was appropriately reported as:
 - **Restricted** - Revenue received from child nutrition programs, county MOE funds, field trip fees, transfers from reserve fund, interest earned on CD contract funds, fundraising, and donations or contributions that are designated for specific limited purposes.
 - **Unrestricted** – Revenue that may be expended for certified or non-certified children and that is not provided for specific, limited purposes. Examples are family fees for non-certified children, Head Start revenue and fundraising income.
2. Determine that the contractor reported only expended restricted income. Restricted income that is not expended during the contract period remains restricted and shall be considered deferred revenue. Deferred revenue is not reported on the Attendance and Expenditure reports (5 *CCR*, Section 18068 and *FT&C*, Section VI.F).

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3. Ascertain that funds transferred from the reserve account to pay for reimbursable expenses were reported in the same amount on: (1) the designated line of the contract's CDNFS form; and (2) the Reserve Account Activity Report (CDNFS 9530-A).
4. Verify that any other income was reported correctly on the appropriate lines.

Procedures for Reporting Reimbursable Expenses

1. Verify that reimbursable expenses are properly reported on the CDNFS form.
2. Ensure that the contractor has sufficient documentation to substantiate the reported reimbursable expenditures. Note that any non-reimbursable "program" expenses would be reported under Supplemental Expenses; however, any expenses not related to the program would not be reported on the AUD form.
3. Verify that the contractor did not exceed the maximum indirect costs rate of ten percent and that the rate was only applied to budget categories 1000-5000, including budget categories 1000-5000 reported as Start-Up expense, and provider payments.
4. Verify that start-up/service level exemption allowance did not exceed the contract terms identified on the contract face sheet and that all start-up costs are reimbursable and necessary for the establishment and stability of a new child development program (*FT&C*, Section V.E).
5. Verify that the attendance and fiscal reports agree with the accounting records that support the financial statements.
6. Verify that the required Independent Auditor's Assurances are made on the applicable AUDs by marking the "Yes" or "No" check boxes, confirming that:
 - a. Eligibility, enrollment, and attendance records were being maintained as required
 - b. Reimbursable expenses claimed were eligible for reimbursement, reasonable, necessary, and adequately supported

Procedure for Reporting Supplemental Revenue

1. Verify that revenue reported under Supplemental Revenue was for program expenses that were not reimbursable by CD, including income such as Head Start, QRIS, First 5 enhancement funds, foundation grants or other funds intended to pay for projects or benefits beyond the basic child development services for children.
2. Determine that the contractor reported supplemental revenue only when its corresponding supplemental expenses are reported. Restricted supplemental

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revenue that is not expended during the contract period is considered deferred revenue and should not be reported on the Attendance and Fiscal reports. Unrestricted program income is only considered supplemental when used for supplemental expenditures.

Procedure for Reporting Supplemental Expenses

1. Verify that expenses reported under Supplemental Expenses were for program expenses that are related to Supplemental Revenue, or other non-reimbursable program expenses. Note that any expenses not related to the program would not be reported on the AUD form.

K. CD Sub-recipient Monitoring

Audit Objective: Determine that the contractor has complied with CD subcontracting requirements.

Procedures

1. Determine that the contractor's subcontract agreement contains all required elements and contractual arrangements identified in program regulations and requirements (5 CCR, Section 18031 and FT&C, Section IV.C).
2. Verify that the subcontract agreement did not increase the contractor's cost of performance (FT&C, Section IV.F).
3. Determine that 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 under review.
4. Ascertain that the contractor obtained and submitted to CDE and/or CDSS an appropriate audit from the subcontractor in accordance with program requirements (5 CCR, Section 18032, FT&C Section IV.G).

NUTRITION PROGRAMS

740

The procedures for auditing compliance with nutrition program requirements focus on child care centers, day care homes, and adult day care centers that administer the CACFP, SNP and SFSP.

The nutrition programs included in the *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 7 CFR. FNS Instruction 796-2, Rev. 4, specifies the financial management requirements for the CACFP.

The CDE and the CDSS are authorized to administer federal nutrition programs for nonprofit, for-profit, governmental, and educational agencies, pursuant to EC, sections

8240, 49531, 49540-49546, and 49550. Local educational agencies (LEAs) [e.g., school districts, typically are not subject to the audit procedures in the *Audit Guide*] are typically audited under the Single Audit requirements using the *SCO Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

An agency that enters into a nutrition program agreement with the CDE and/or CDSS assumes administrative and financial responsibility for providing federally-subsidized meals and/or milk to children in most child care settings (child care centers and daycare homes) 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.

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. 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.

There are two primary child care center sponsors: (1) a “center” sponsor is an agency that owns and operates its own centers; and (2) an “independent center” sponsor is an agency that provides administrative services to centers that it does not legally own.

Adult day care centers are public, non-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. 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.

For additional information on adult day care center meals and eligibility, refer to the Adult Day Care Center Component on CDE’s web page at <https://www.cde.ca.gov/ls/nu/cc/>.

The following audit procedures are not intended to be all inclusive for assessing compliance with CACFP requirements. Therefore, the independent auditor must be familiar with CACFP regulations and requirements and apply sound professional judgment when conducting the CACFP audit.

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A. Child Care Centers – Financial Activities and Costs

Audit Objective: Assess fiscal accountability.

Procedures

1. Examine the agency's chart of accounts and general ledger to determine that the agency separately accounts for CACFP income and expenditures in general ledger accounts (non-profit food service accounts), and that the accounting system accurately records CACFP income and expenditures.
2. Reconcile meal reimbursement income payments from the agency's Claim History Report to the general ledger CACFP income account to verify that all meal reimbursement income has been accurately accounted for by the agency.
3. Examine general ledger expenditure accounts for CACFP food, supplies, and personnel costs, and trace amounts to expenditure source documents to verify that posted expenditures are allowable, reasonable, and necessary to food service operations.
4. Determine that salaries and wages are based on records that accurately reflect the work performed. These records must:
 - (a) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
 - (b) Be incorporated into the official records of the agency.
 - (c) Reasonably reflect the total activity for which the employee is compensated by the agency, not exceeding 100 percent of compensated activities.
 - (d) Encompass both federally assisted and all other activities compensated by the agency on an integrated basis, but may include the use of subsidiary records as defined in the agency's written policy.
 - (e) Comply with the established accounting policies and practices of the agency.
 - (f) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and a non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

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Budget estimates (e.g., estimates determined before the services are performed) alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes.

5. Reconcile employee time accounting records to the payroll register to ensure salaries and wages are accurately charged based on the actual hours the employees worked.

B. Child Care Centers – CACFP Fund Balance

Audit Objective: Determine excess CACFP account balance.

Procedures

1. Examine the CACFP income and expenditure account activity from the prior fiscal year to determine that CACFP meal reimbursements exceeded CACFP expenses. Any resulting CACFP income amount greater than expenses is considered excess account balance of funds and restricted solely for CACFP purposes.
2. Determine if the CACFP non-profit food account contains an excess balance of more than three months of average operating expenses for the year. Agencies are required to spend the excess amount on food service operations and approved enhancements to reduce the excess account balances to an amount under three months of average operating expenses.
3. Examine general ledger account balances for the prior period to ensure that any excess expenditures that exceed the meal reimbursement income is charged to a non-restricted account.

C. Child Care Centers – Enrollment and Eligibility

Audit Objective: Verify child enrollment and eligibility.

Procedures

1. Review family files for each child in care, including those claimed at the base category, to determine if a current enrollment document is signed and dated by the parent/guardian prior to the beginning enrollment date.
2. Review the Meal Benefit Form (MBF) for each enrolled child claimed at the Free and Reduced-Price eligibility categories to ensure that the MBFs are signed and dated by the parent/guardian and certified by the agency. Verify that the entity considered all current household income in determining correct eligibility.
3. Verify that each At-Risk Afterschool site facility is within the attendance boundaries of the school in which at least 50 percent of enrolled children are eligible for free or reduced-price school meals.

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4. Verify that all reported participants are supported with required eligibility and enrollment records.
5. Examine the agency's roster of eligible children for October of each year (the base month for fixed rates of reimbursement for the program year), and the roster for any month in which the rates of reimbursement changed.
6. For emergency shelters, verify that the agency maintains a daily roster of residential children/eligible disabled persons with age, date entered, and date exited for each location claimed. Verify that the participants listed on the daily roster reside in the shelter, and verify that reported numbers for the month match the roster numbers in total.
7. For for-profit centers, verify that at least 25 percent of the enrolled participants or licensed capacity, whichever is less, are eligible for free or reduced-price meals in each month for which a claim was submitted.

For Income Eligibility Guidelines and Reimbursement Rates, visit the CDE web page at <https://www.cde.ca.gov/ls/nu/rs/index.asp>.

Child Care Centers – Administrative Costs

Audit Objective: Verify that administrative costs and unspent CACFP funding is not excessive.

Procedure

1. Verify that the center retained no more than 15 percent of meal reimbursement for its administrative expenses, unless the center was granted a waiver (7 CFR, Part 226).

D. Child Care Centers – Meal Counts

Audit Objective: Validate accuracy of claimed meal counts.

Procedures

1. Review the number of approved sites for children to verify that the agency claimed reimbursement only for approved facilities as reflected in the CNIPS.
2. Sample and examine child attendance records for at least two months to verify that daily and weekly meal counts are supported by attendance records, and do not exceed the maximum licensed capacity of the facility.
3. Verify the accuracy of daily and monthly meal counts and summary sheets to substantiate the reported number and type of meals claimed for reimbursement.

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

Note: 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).

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 agency is a public or nonprofit agency that is responsible for administering a food program in one or more day care homes. Although day care homes may not enter into an agreement directly with the CDSS, the day care home provider must have a current agreement with the sponsoring agency.

A. Day Care Homes – Activities and Costs

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

Procedures

Perform the following procedures to test administrative costs and provider payments (7 *CFR*, parts 226.12 and 226.13; FNS Instruction 796-2, Rev. 4):

- Administrative Costs
 1. Trace the total amount of claimed monthly administrative expenses to the agency's general ledger.
 2. Select and trace a representative sample of administrative costs to source documents and determine that the costs are within the approved budget, allowable, reasonable, and necessary to the CACFP.
 3. Determine that salaries and wages are based on records that accurately reflect the work performed. These records must:

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- (a) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
- (b) Be incorporated into the official records of the agency.
- (c) Reasonably reflect the total activity for which the employee is compensated by the agency, not exceeding 100 percent of compensated activities.
- (d) Encompass both federally assisted and all other activities compensated by the agency on an integrated basis, but may include the use of subsidiary records as defined in the agency's written policy.
- (e) Comply with the established accounting policies and practices of the agency.
- (f) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and a non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Budget estimates (e.g., estimates determined before the services are performed) alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes.

4. Reconcile employee time accounting records to the payroll register to ensure salaries and wages are accurately charged based on the actual hours the employees worked.
- Provider Payments
 1. Determine that payments to providers are properly recorded and adequately supported by bank statements and cancelled checks.
 2. Select a representative sample of payments and test to determine if payments were made accurately.

B. Day Care Homes – Cash Management

Audit Objective: Determine if the CACFP day care home sponsors appropriately handled any outstanding checks payable to providers.

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Procedures

1. Verify that the sponsoring agency disbursed meal reimbursement payments to its day care homes within five working days of receiving them (7 *CFR*, parts 226.16(g) and (h)).
2. Identify checks issued to a provider that were outstanding more than nine months. Determine that the sponsor made adequate attempts to locate the provider, or to return the funds to the CDE and/or CDSS (NSD Management Bulletin No. NSD-CACFP-05-2007).
3. Review general ledger cash accounts to identify any funds being transferred from the entity's CACFP account into the general cash account.

C. Day Care Homes – Enrollment and Eligibility

Audit Objective: Verify that the sponsor's providers have entered into written agreements in accordance with 7 *CFR*, Part 226.18 and children are properly enrolled in the CACFP.

Procedures

1. Verify that providers entered into written agreements with the sponsor which specify the rights and responsibilities of both parties.
2. Determine that the providers' Tier I and Tier II eligibility determinations are supported by low income 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 2 *CFR*, Part 200, Compliance Supplement, Appendix XI, Part 4-10.558).
3. Verify that participating children are supported with fully completed Meal Benefit Forms and other required records to support income eligibility.

D. Day Care Homes – Equipment

Audit Objective: Determine that the agency maintains required records and internal controls over equipment purchased with CACFP funds.

Procedures

1. Review and assess the adequacy of the agency's policies and procedures for acquiring, recording, securing, and disposing equipment.
2. Test equipment transactions for compliance with policies and procedures for acquiring, recording, securing, and disposing of equipment, including adherence to obtaining prior approvals and competitive bidding requirements.

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3. Verify that a physical inventory of equipment purchased with CACFP funds was conducted within the last two years, and reconciles to the agency's general and subsidiary ledgers.
4. Select a sample of equipment items to verify physical existence, and to determine if the items were accurately recorded, physically secure, and properly tagged for inventory identification.

E. Day Care Homes – Reported Meals

Audit Objective: Determine if the agency accurately claimed meals for reimbursement.

Procedures

1. Verify that the claimed number of breakfasts, lunches, snacks, and supper did not exceed the agency's licensed capacity.
2. If the provider's own children consumed meals, verify enrollment of each child.
3. Identify any variances between meals reported for reimbursement and meals supported by documentation. Report any adjustments on the appropriate audit report schedule (Chapter 400 and Appendix C).

SCHOOL NUTRITION PROGRAM

746

The National School Lunch Program (7 *CFR*, Part 210) and the School Breakfast Program (7 *CFR*, Part 220) offer free or reduced-price prepared meals to eligible children in structured settings. The Special Milk Program for Children (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. The procedures below are intended for audits of nonprofit private schools at the high school grade level or under, and public or licensed nonprofit private residential child-care institutions.

A. SNP – Eligibility

Audit Objective: Determine if only eligible children were enrolled in the program in accordance with the requirements of 7 *CFR*, Part 245.

Procedures

1. Verify that enrolled children were eligible to receive free or reduced-price meals under the program by meeting the eligibility requirements of 7 *CFR*, Part 245.6.
2. Calculate the impact of the eligibility exceptions to the agency's reimbursements.

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B. SNP – Procurement

Audit Objective: Determine if CACFP funds were appropriately spent on food and food services.

Procedures

- Contracts with Food Service Management Companies
 1. Verify that the agency's contracts with all food service management companies were pre-approved by the CDE.
- Discounts, Rebates
 1. Determine that cost-reimbursable contracts awarded by the school food authority included the following required provisions:
 - a. Agency 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. Agency must identify the amount of each discount, rebate, and other applicable credit on bills and invoices presented for payment.
 2. Verify that all discounts and rebates are properly credited to the agency's food service expenditure accounts and reimbursed accordingly.

C. SNP – Sub-recipient Special Reporting

Audit Objective: Determine that the agency submitted complete and accurate claims for reimbursement of meals and milk (NSLP at 7 *CFR*, Part 210.8(b)).

Procedures

(Also see 2 *CFR* Part 200 Appendix XI Compliance Supplement for additional details and exceptions to special reporting for sub-recipients.)

1. Verify that reimbursement claims include the number of meal and milk servings by category and type during the reporting periods.
2. Determine that claims were supported by documented, accurate meal counts.
3. Verify that the agency served the required milk type during meals and snacks.
4. 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 (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 the *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 agencies that administer a special summer or other school vacation program that provides services similar to those available to children during the school year under the SNP.

A. SFSP for Children – Eligibility

Audit Objective: Determine that only eligible children were enrolled in the program in accordance with the requirements of 7 *CFR*, Part 225.6(c) 2 and 3.

Procedures

(Also see 2 *CFR* Part 200 Appendix XI Compliance Supplement.)

1. Determine that enrolled individuals were eligible to receive meals under the program by meeting the definition of “children,” as defined by 7 *CFR*, Part 225.2.
2. Evaluate the impact that miscategorizing enrolled participants or misreporting eligibility may have on the agency’s reimbursements.

B. SFSP for Children – Contracting and Procurement

Audit Objective: Assess the agency’s compliance with contract provisions and applicable laws and regulations in 7 *CFR*, Part 225.17.

Procedures

1. Gain an understanding of the agency’s contracting and procurement policies and procedures, including internal controls, bidding and selection, and approval processes.
2. Identify related party contracts and assess the impact to the SFSP (e.g., consider the effect on competitive pricing and the amount of discounts or rebates).

C. SFSP for Children – Sub-recipient Special Reporting

Audit Objective: Determine that the agency submitted complete and accurate claims for reimbursement of meals (7 *CFR*, parts 225.9(d) and 225.15(c)(2)).

Procedures

(Also see 2 *CFR* Part 200 Appendix XI Compliance Supplement.)

1. Verify that reimbursement claims include the number of meal and milk servings by category and type during the reporting periods.
2. Determine that claims were supported by documented, accurate meal counts.
3. Verify that the agency served the required milk type during meals and snacks.

ADULT EDUCATION PROGRAMS

750

The *Workforce Investment Act of 1998 (WIA)*, Public Law 105-220, was enacted to 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 assist adults to: (1) become literate and obtain the knowledge and skills necessary for employment and self-sufficiency; (2) obtain the educational skills necessary to become full partners in the educational development of their children; and (3) complete secondary school education.

Program requirements applicable to audits include the *WIA*, Title II and other pertinent laws, regulations, rules and guidelines:

- *Uniform Grants Guidance, Part 200, for awards made on or after December 26, 2014*
- *34 CFR, Part 74, for awards made before December 26, 2014*
- *California State Administrative Manual*
- *WIA, Title II Program Reapplication Guidelines and Requirements*
- *WIA, Title II General Assurances*
- *Manual for California*

The following procedures for auditing federal adult education program funding under the *WIA*, Title II of the *Adult Education and Family Literacy Act* are not intended to be all inclusive for assessing compliance with adult education program requirements. Therefore, the independent auditor must refer to federal adult education program regulations and requirements and apply sound professional judgment when conducting the audit.

A. Adult Education – Internal Controls and Financial Integrity

Audit Objective: Evaluate adequacy of internal controls and financial integrity.

Procedures

1. Assess weaknesses in the control environment, risk assessment, fiscal activities, monitoring, claims processes, and separation of key duties and responsibilities.

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2. Assess the internal controls over program compliance and financial processes and identify any design deficiencies or potential risks.
3. Trace the amount of grant award payments received from the CDE to the agency's cash receipts account in the Profit and Loss statement, general ledger, or other accounting record to verify that all grant payments are accurately accounted for and reported in the agency's records. Determine that the grantee's records adequately identified the source and application of funds.
4. Trace the agency's total expenditures reported on the *Final Expenditure Report* filed with the CDE to the agency's Profit and Loss statement, general ledger, or other accounting records to verify accuracy of the reported expenditures.
5. Verify that the agency separately accounted for each adult education program funding with expenditures.
6. Assess the reasonableness of the allocation methodology if the agency allocated costs amongst programs.
7. 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.
8. Determine that salaries and wages are based on records that accurately reflect the work performed. These records must:
 - (a) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
 - (b) Be incorporated into the official records of the agency.
 - (c) Reasonably reflect the total activity for which the employee is compensated by the agency, not exceeding 100 percent of compensated activities.
 - (d) Encompass both federally assisted and all other activities compensated by the agency on an integrated basis, but may include the use of subsidiary records as defined in the agency's written policy.
 - (e) Comply with the established accounting policies and practices of the agency.
 - (f) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and a non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

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Budget estimates (e.g., estimates determined before the services are performed) alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes.

9. Reconcile employee time accounting records to the payroll register to ensure salaries and wages are accurately charged based on the actual hours the employees worked.
10. Verify that the agency did not charge the adult education programs more than five percent of total program funds for administrative purposes.
11. Ascertain that donations, contributions and volunteer services were appropriately documented and reported for those agencies with cost sharing or matching requirements.

B. Adult Education – Program Expenditures

Audit Objective: Validate program expenditures.

Procedures

1. Select a sample of expenditures posted in the agency's adult education program general ledger accounts for labor costs, educational materials, and other pertinent expenditures to determine that program funds were expended only for allowable activities and costs.
2. Examine original invoices or other records to validate that each selected expenditure was: (1) an allowable program cost; (2) adequately supported; (3) properly approved by someone other than the person requesting the expenditure; (4) correctly posted in accounting records; and (5) charged to the correct line item and fiscal period.
3. For labor costs, validate that each payroll expenditure was: (1) adequately supported by time distribution activity reports or certifications that reflect the total activity for which the employee is compensated and specify the actual hours spent on each program's activities; and (2) supported by payroll register detail that substantiates the allocated labor costs to the program.
4. For facilities rental costs, verify that the lease agreement was conducted at arms-length (no related parties) and monthly rent is reasonable and based on an acceptable allocation methodology (e.g. square footage or usage hours).
5. Verify that expenditures are allowable, allocable, reasonable, necessary, and supported with source documentation (original vendor invoices and cancelled checks).
6. Confirm that no budgeted expenditure line item was over-expended by ten percent or more without CDE's approval for a revised budget (WIA Program

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Reapplication Guidelines and Requirements, Grant Accountability Requirements and Deliverables, 6. Grant Budget Guidelines).

7. 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).
8. 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, Grant Budget Guidelines).

C. Adult Education – Student Eligibility and Files

Audit Objective: Validate student enrollment, test results, and classroom attendance.

Procedures

1. Obtain Comprehensive Adult Student Assessment System reports to identify the names of students that earned achievement payment points.
2. Select a sample of students that earned “significant gain” and “two-level gain” payment points based on test scores, and validate that pre- and post-test records are retained in the student files to verify that test scores were correctly recorded and student achievement payment points were accurately computed and documented.
3. Examine student files for each learner to verify that the agency appropriately administered and maintained Entry records, Update records, pre- and post-tests, special assessments records, and evidence of 12 or more hours of instruction for each student.
4. Observe an adult education class while it is in session to verify that the instruction relates to English-as-a-Second Language, English Literacy, or Citizenship/Civics educational instruction. Compare the number of students in attendance to the sign-in/out sheet.

D. Adult Education – Equipment

Audit Objective: Verify that equipment purchased with grant funds benefitted the adult education programs in proportion to the costs charged to the programs and was adequately safeguarded and accounted for.

Procedures

1. Review the grantee’s policies and procedures, and test transactions for compliance with: (a) management and recordkeeping requirements; (b) classification and identification requirements; (c) purchasing, disposition and physical inventory requirements; and (d) proper maintenance requirements.

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2. Verify that all equipment purchased during the audit period is used by the adult education programs and is charged in proportion to the costs allocated to the programs.
3. Verify that depreciation is charged to the programs in relation with the corresponding equipment.
4. Verify that all equipment removed from the asset accounts is adequately documented, including the date of removal, reason for removal, and disposition (e.g. sale or surplus).
5. Verify that all equipment sale proceeds during the audit period are reasonable (sold at market value) and properly recorded.

E. Adult Education – Procurement

Audit Objective: Determine that the grantee established and followed procedures for the procurement of supplies and expenditures, equipment and services.

Procedures

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

21st CENTURY COMMUNITY LEARNING CENTERS PROGRAM

760

The following procedures for auditing the 21st CCLC Program apply when auditing CD programs administered by community-based organizations (CBOs).

21st CCLC program requirements:

- Elementary and Secondary Education Act of 1965 (ESEA), Title IV, Part B, sections 4201-4206
- Uniform Grants Guidance, Part 200, for awards made on or after December 26, 2014

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- Federal Education Department General Administration Regulations (34 *CFR*, parts 74-86 and 97-99) for awards made before December 26, 2014
- *EC*:
 - Article 19, 21st Century High School After School Safety and Enrichment for Teens Program, sections 8420-8428
 - 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 CCLC, sections 8484.7-8484.9
- General Assurances (an attachment to the state grant application)

A. 21st CCLC Activities and Costs

Audit Objective: Determine that the CBO expended federal funds only for allowable activities and costs.

Procedures

1. Ascertain that program activities carried out with 21st CCLC funds were authorized by ESEA, Title IV, Part B, Section 4205, and the approved grant application.
2. Determine that claimed costs were allowable in accordance with the applicable federal cost principles.
3. Determine that salaries and wages are based on records that accurately reflect the work performed. These records must:
 - (a) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
 - (b) Be incorporated into the official records of the agency.
 - (c) Reasonably reflect the total activity for which the employee is compensated by the agency, not exceeding 100 percent of compensated activities.
 - (d) Encompass both federally assisted and all other activities compensated by the agency on an integrated basis, but may include the use of subsidiary records as defined in the agency's written policy.
 - (e) Comply with the established accounting policies and practices of the agency.
 - (f) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and a non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using

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different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Budget estimates (e.g., estimates determined before the services are performed) alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes.

4. Reconcile employee time accounting records to the payroll register to ensure salaries and wages are accurately charged based on the actual hours the employees worked.
5. Verify that administrative (direct and indirect) costs did not exceed 15 percent of the annual total grant award amount (e.g., no less than 85 percent of funding was allocated for direct services to students) (*EC* sections 8483.9(b) and (c)):
 - a. Verify that direct administrative costs (e.g., collection and maintenance of records) directly benefitted the program charged.
 - b. Verify that indirect costs were part of administrative costs and did not exceed a school district's current CDE-approved indirect cost rate, or five 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 website 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."
6. Verify that funds were not used for capital outlays such as real property, construction (including structural alterations, but excludes minor remodeling), or renovation.

B. 21st CCLC Cash Management

Audit Objective: Determine that the CBO followed procedures to administer and safeguard funds received from the CDE.

Procedure

1. Identify, evaluate, and test procedures established to administer and safeguard funds and to account for and report interest earned.

C. 21st CCLC Equipment

Audit Objective: Determine that the CBO adequately safeguarded, maintained, and accounted for equipment purchased with federal funds.

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Procedures

1. For equipment acquired with federal funds (34 *CFR*, Part 74.34), determine that 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 CCLC Matching and Level of Effort

Audit Objective: Determine that 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.

Procedures

- Matching
 1. Perform tests to verify that the CBO's 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.
- 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.

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3. Ascertain that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared.
- Supplement not Supplant
 1. Determine that the organization used federal funds to provide services which the organization was not already required to make available under other federal, state, or local law.
 2. Ascertain that the organization did not use federal funds to provide services which were provided with nonfederal funds in the prior year.

E. 21st CCLC Procurement

Audit Objective: Determine that the CBO appropriately procured supplies and other expendable property, equipment, and services with federal funds.

Procedures

1. Determine that the CBO adequately:
 - a. Solicited bids or estimates that clearly established all requirements that the bidder should fulfill.
 - b. 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.
 - c. Selected the lowest bid or estimate that was responsive to the solicitation requirements or documented the reason(s) for not selecting the lowest bidder.
 - d. 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 CCLC Program Income

Audit Objective: Determine that the CBO established and followed procedures for the effective control of program income.

Procedures

1. Determine that the CBO appropriately recorded all program income in a separate general ledger account.
2. Select and test a sample of transactions to verify that the CBO used program income for only allowable, reasonable, and necessary program goods and services.

G. 21st CCLC Reporting

Audit Objective: Determine that required reports were timely submitted and accurately included all the required information for the reporting period.

Procedures

1. Select a sample of attendance reports pertaining to the grant period.
2. Determine the accuracy of reported attendance information.
3. Select a sample of expenditure reports to verify that: (a) expenditures are reported accurately and in the correct categories; and (b) information is supported by the CBO's official accounting records.
4. Determine that salaries and wages are based on records that accurately reflect the work performed. These records must:
 - (a) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
 - (b) Be incorporated into the official records of the agency.
 - (c) Reasonably reflect the total activity for which the employee is compensated by the agency, not exceeding 100 percent of compensated activities.
 - (d) Encompass both federally assisted and all other activities compensated by the agency on an integrated basis, but may include the use of subsidiary records as defined in the agency's written policy.
 - (e) Comply with the established accounting policies and practices of the agency.
 - (f) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and a non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Budget estimates (e.g., estimates determined before the services are performed) alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes.
5. Reconcile employee time accounting records to the payroll register to ensure salaries and wages are accurately charged based on the actual hours the employees worked.

APPENDIX A: ILLUSTRATIVE CONTRACTOR AUDIT REPORT
(ADDRESSES SINGLE AUDIT REPORTING REQUIREMENTS OF
***UNIFORM GRANTS GUIDANCE, 2 CFR PART 200, SUBPART F*)**

EXAMPLE ENTITY

FISCAL YEAR ENDED JUNE 30, 2021

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY

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EXAMPLE ENTITY

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[Auditor's Letterhead]

Independent Auditor's Report

To Management and the Board of Directors of Example Entity

Report on the Financial Statements

We have audited the accompanying financial statements of Example Entity, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information, such as the *Schedule of Expenditures of Federal [and State] Awards*, as required by *Uniform Grants Guidance*, 2 CFR Part 200, Subpart F [if a *Single Audit*], and the additional supplementary information on pages xx through xx required by the *Audit Guide* issued by the California Department of Education and the California Department of Social Services, is/are presented for purposes of additional analysis and is/are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards general accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated [Enter Date Here], on our consideration of Example Entity's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Example Entity's internal control over financial reporting and compliance.

Firm's signature
City, State
Date

**EXAMPLE ENTITY
Statement of Financial Position
June 30, 2021**

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Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

**EXAMPLE ENTITY
Statement of Activities
Year Ended June 30, 2021**

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**EXAMPLE ENTITY
Statement of Functional Expenses
Year Ended June 30, 2021**

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**EXAMPLE ENTITY
Statement of Cash Flows
Year Ended June 30, 2021**

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Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements
June 30, 2021**Note 1 Nature of Organization**

Example Entity was incorporated as a not-for-profit corporation in 1998 to establish and maintain CD programs. The organization is publicly and privately funded through agreements with the California Department of Education (CDE) and the California Department of Social Services (CDSS), Bountiful County Office of Education Head Start Program, private donations, and CD fees. Government contracts accounted for 94 percent of the organization's funding for the current fiscal year ended June 30, 2021.

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 (*GAAP*). Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:
 - i. Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
 - ii. With Donor Restrictions. Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

All of Example Entity's net assets were considered to be without donor restrictions as of June 30, 2021, except fixed assets purchased with state funds (Note 4) were considered to be net assets with donor restrictions.

- 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 CD are expensed on supplementary reports during the contract period.

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements
June 30, 2021

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 *GAAP*. 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, 2021, 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, 2021, 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
June 30, 2021**

- h. *Use of Estimates.* The preparation of financial statements in conformity with *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 CD 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 CD reporting requirements. However, reporting differences arise because CD 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 CD requirements. To address such reporting differences, the audit report includes a *Reconciliation of CD and GAAP Expense Reporting*.

Note 3 Property and Equipment

At June 30, 2021, 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 CDE and the CDSS retain a reversionary interest in certain assets purchased with CD 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 the CDE and/or the CDSS. At June 30, 2021, such assets consisted of the following:

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>

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements
June 30, 2021

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 2027 with an affiliate. The annual fair market rent is \$144,000, based on a fair market rental estimate from an independent appraiser, licensed by the California Office of Real Estate Appraisers. 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, 2021 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, 2021 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, 2021.

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, 2021 is \$39,000. However, accumulated employee sick leave benefits are not recognized as liabilities of Example Entity because 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 2027. The annual fair market rental is \$144,000. The

Illustrative Contractor/Single Audit Report

**EXAMPLE ENTITY
Notes to Financial Statements
June 30, 2021**

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 2021 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:

2022	\$ 24,000
2023	24,000
2024	24,000
2025	24,000
2026	<u>24,000</u>
	<u>\$120,000</u>

Note 11 Capital Lease Commitment

Example Entity received \$150,000 from the CDE during the prior fiscal year to acquire a portable classroom building to be used in its general center program, under CDE Contract No. CSPP00X2. 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, 2021.

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

2022	\$ 15,000
2023	15,000
2024	15,000
2025	15,000
2026-31	90,000
Total minimum lease payments	<u>150,000</u>
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>

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements
June 30, 2021

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, 2021. The mortgage, with monthly payments of \$8,877, is due June 15, 2031. Annual debt service requirements to maturity are as follows:

Year Ending June 30:	Principal	Interest
2022	\$ 55,787	\$ 50,811
2023	59,701	46,762
2024	63,889	42,429
2025	68,373	37,792
2026-31	523,610	115,522
	\$771,360	\$293,316
Current portion	\$8,877	
Noncurrent portion	762,483	
	\$771,360	

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:

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.

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements
June 30, 2021

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 approved indirect cost allocation plan.

Note 14 Reserve Account

Child development contractors are allowed, with prior CDE and/or CDSS 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, 2021 was \$60,500, which is recorded as an asset in the cash account. Also, upon termination of all child development center-based contracts, Example Entity would have to return the reserve funds to CDE and/or CDSS, so the reserve account is recorded as a liability (deferred revenue) in the amount of \$60,500.

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, 2021.

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, 2021. ABC has a direct contract (CCTR00X5) with CDSS under Vendor No. X345. Example Entity received from ABC Company \$1,150,000 of child development contract funds and \$42,000 of supplemental contributions to enhance the operation of the program.

Also, Example Entity received from ABC Company \$110,000 under its Child Care Food Program Agreement with CDSS: CNIPS ID # 0406A-CACFP-19-

Illustrative Contractor/Single Audit Report**EXAMPLE ENTITY
Notes to Financial Statements
June 30, 2021**

NP-CS. 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 the CDSS for Child and Adult Care Food Programs, as reported in the *Schedule of Expenditures of Federal and State 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, 2021

**EXAMPLE ENTITY
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2021**

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**EXAMPLE ENTITY
Combining Statement of Activities
Year Ended June 30, 2021**

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**EXAMPLE ENTITY
Schedule of Expenditures by State Categories
Year Ended June 30, 2021**

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**EXAMPLE ENTITY
Reconciliation of CD and GAAP Expense Reporting
Year Ended June 30, 2021**

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**EXAMPLE ENTITY
Schedule of Claimed Equipment Expenditures
Year Ended June 30, 2021**

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EXAMPLE ENTITY
Schedule of Claimed Expenditures for Renovations and Repairs
Year Ended June 30, 2021

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Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

**EXAMPLE ENTITY
Schedule of Claimed Administrative Costs
Year Ended June 30, 2021**

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Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

**EXAMPLE ENTITY
Schedule of Claimed Start-Up¹ Expenses
Year Ended June 30, 2021**

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Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

EXAMPLE ENTITY
Schedule of Claimed Budget Impasse Credit Expenses
Year Ended June 30, 2021

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Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

EXAMPLE ENTITY**Notes to the Child Care and Development Program Supplemental Information
Year Ended June 30, 2021**

In accordance with the applicable requirements from the Funding Terms & Conditions:

1. Interest expense is only allowable as a reimbursable cost in certain circumstances when it has been preapproved by the administering state department or relates to the lease purchase, acquisition, or repair or renovation of early learning and care facilities owned or leased by the contractor. Allowable interest expense of \$3,233 (\$1,234 for Contract # CCTR00X1 and \$1,999 for Contract # CSPP00X2) relating to the mortgage (Note 12) for Example Entity's acquisition of its child care facility was claimed as a reimbursable expense for the year ended June 30, 2021. No interest expense relating to the line of credit (Note 8) was claimed to a child development contract for the year ended June 30, 2021.
2. All expenses claimed for reimbursement under a related party rent transaction must be supported by a fair market rental estimate from an independent appraiser, licensed by the California Office of Real Estate Appraisers. Related party rent expense claimed as a reimbursable expense for the year ended June 30, 2021, was \$24,000 (\$10,000 for Contract # CCTR00X1 and \$14,000 for Contract # CSPP00X2). The fair market rental estimate supports reimbursable expenses up to \$144,000.
3. Bad debt expense is unallowable unless it relates to uncollected family fees where documentation of adequate collection attempts exists. No bad debt expense was claimed to a child development contract for the year ended June 30, 2021.

EXAMPLE ENTITY

Audited Attendance and Fiscal Reports

For the Year Ended June 30, 2021

APPENDIX A

The image for the Audited Attendance and Fiscal Reports, CCTR00X1-Child Development Program, Page 1 of 8 been removed for accessibility purposes. Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

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APPENDIX A

The image for the Audited Attendance and Fiscal Reports, CHST00X4-Child Development Program, Page 4 of 4 has been removed for accessibility purposes. Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

APPENDIX A

The image for the Attendance and Fiscal Reports, CCTR00X5-Child Development Program, Page 1 of 8 has been removed for accessibility purposes. Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

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The image for the Attendance and Fiscal Reports, CCTR00X5-Child Development Program, Page 2 of 8 has been removed for accessibility purposes. Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

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The image for the Attendance and Fiscal Reports, CCTR00X5-Child Development Program, Page 5 of 8 has been removed for accessibility purposes. Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

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APPENDIX A

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APPENDIX A

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APPENDIX A

The image for the Audited Reserve Account Activity Report, Page 1 of 1 has been removed for accessibility purposes. Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

EXAMPLE ENTITY

Other Required Information

For the Year Ended June 30, 2021

[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 in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Example Entity, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Example Entity's basic financial statements, and have issued our report thereon dated [Enter Date Here].

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Example Entity's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* that we consider to be significant deficiencies (items 2021-1, 2021-2, 2021-3, and 2021-4).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Example Entity's financial statements are free from 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 2021-1, 2021-2, 2021-3, and 2021-4.

We noted certain matters that we reported to management of Example Entity in a separate letter dated [Enter Date Here].

Example Entity's Response to Findings

Example Entity's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. Example Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Public Accounting Firm LLP
Certified Public Accountants

Date

[Auditor's Letterhead]

Report on Compliance for Each Major Program, Report on Internal Control Over Compliance, and Report on Schedule of Expenditures of Federal Awards Required by *Uniform Grants Guidance, 2 CFR Part 200, Subpart F*

Board of Directors
Example Entity

Report on Compliance for Each Major Program

We have audited Example Entity's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Example Entity's major federal programs for the year ended June 30, 2021. 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*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Example Entity's major federal programs based on our audit of the types of compliance requirements referred to above. 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 *Uniform Grants Guidance, 2 CFR Part 200, Subpart F*. Those standards and guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Example Entity's compliance.

Opinion on Each Major Federal Program

In our opinion, Example Entity complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with *Uniform Grants Guidance*, 2 CFR Part 200, Subpart F and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2021-1, 2021-2, 2021-3, and 2021-4. Our opinion on each major federal program is not modified with respect to these matters.

Example Entity's responses to the noncompliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. *Example Entity's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.*

Report on Internal Control Over Compliance

Management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Example Entity's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *Uniform Grants Guidance*, 2 CFR Part 200, Subpart F, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the

accompanying *Schedule of Findings and Questioned Costs* as items 2021-1, 2021-2, 2021-3, and 2021-4 that we consider to be significant deficiencies.

Example Entity's responses to the internal control over compliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. Example Entity's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *Uniform Grants Guidance, 2 CFR Part 200, Subpart F*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by *Uniform Grants Guidance, 2 CFR Part 200, Subpart F*

We have audited the financial statements of Example Entity as of and for the year ended June 30, 2021, and have issued our report thereon dated [Enter Date Here], which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Uniform Grants Guidance, 2 CFR Part 200, Subpart F* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Public Accounting Firm LLP
Certified Public Accountants
Date

APPENDIX A

The image for the Schedule of Findings and Questioned Costs - Page 1 of 3 has been removed for accessibility purposes. Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2021

Section III – Findings and Questioned Costs for Federal and State Awards – Current Year
--

2021-1: Allowable Start-Up Expenses of \$52,200 Not Claimed

1. Program Information: CFDA No. 93.575/93.596, HHS – Child Care and Development Fund; General Center Contract CCTR00X1.
2. Criteria: The contract provided a service level exemption of \$52,200 prior to full enrollment, as governed by Section V.E 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* (CDNFS 9500) for the year ended June 30, 2021.
4. Questioned Costs: \$52,200, a one-time reimbursable expense.
5. Effect and Context: Without correcting the claim, CDSS 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, 2021

Section III – Findings and Questioned Costs for Federal and State Awards – Current Year (Continued)
--

2021-2: Payroll Costs of \$29,500 Not Supported by Required Time Sheets

1. Program Information: CDE State Preschool Contract CSPP00X2 (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 CSPP00X2) 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 CSPP00X2 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 non-reimbursable 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, 2021

**Section III – Findings and Questioned Costs for
Federal and State Awards – Current Year (Continued)****2021-3: Operating Expenses of \$15,049 Not Adequately Supported**

1. Program Information: CFDA No. 93.575/93.596, HHS – Child Care and Development Fund; Alternative Payments Program Contract CAPP00X3.
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 (*Uniform Grants Guidance, 2 CFR Part 200*).
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 for \$14,250 of non-reimbursable direct costs, plus associated non-reimbursable indirect costs of \$799 that exceeded the 10 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, 2021

**Section III – Findings and Questioned Costs for
Federal and State Awards – Current Year (Continued)**

**2021-4: Non-reimbursable Entertainment Expenses of \$2,500 Claimed
in Error**

1. Program Information: CFDA No. 93.575/93.596, HHS – Child Care and Development Fund; General Center Contract CCTR00X1.
2. Criteria: Section V.H 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 for \$2,500 of non-reimbursable 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*.
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, 2021

Section IV – Status of Corrective Action on Prior Year Findings
--

There was one finding in the prior year:

2020-1: Depreciation Claimed on Property Purchased with CD Funds

1. Program Information: CFDA No. 93.575/93.596, HHS – Child Care and Development Fund; General Center Contract CCTR90X1.
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 CD contract funds.
4. Questioned Costs: \$3,200, the total depreciation claimed for the current year.
5. Effect and Context: The contractor claimed reimbursement for \$3,200 of non-reimbursable costs. All depreciation claimed on CD 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. This finding has been adequately resolved.

[Auditor's Letterhead]

ILLUSTRATIVE AUDITOR'S WRITTEN COMMUNICATION

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, 2021, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Example Entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. 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 in Example Entity's internal control to be significant deficiencies:

1. Allowable start-up expenses of \$52,000 were not claimed due to the lack of staff training necessary to fulfill assigned functions (2021-1).
2. Payroll costs of \$29,500 were not supported by required time sheets because of inadequate design of controls to monitor staff (2021-2).
3. Operating expenses of \$15,049 were not adequately supported due to the faulty design of purchase procedures (2021-3).
4. Non-reimbursable entertainment expenses of \$2,500 were claimed in error because staff lacked knowledge of program requirements (2021-4).

APPENDIX A

This communication is intended solely for the information and use of management and the Board of Directors of Example Entity, others within the organization, and officials of the California Department of Education and the California Department of Social Services and is not intended to be, and should not be, used by anyone other than these specified parties.

Firm's signature
City, State
Date

[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, 2021, 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 [Enter Date Here], on the financial statements of Example Entity.

Comment 1. Enrollment and attendance records for CD contracts were not maintained adequately, or consistently reviewed by the supervisor. As a result, minor over- and under-reporting occurred on Contract CCTR00X1 and attendance was overstated on Contract CSPP00X2.

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.

APPENDIX A

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
Date

[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, 2021

APPENDIX B

**XYZ Child Care Center, Inc.
Fiscal Year Ended June 30, 2021**

Illustrative Schedules

Sponsor of Child Care Centers

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<u>Summary of Claim</u>	A
<u>Statement of Claim</u>	B
<u>Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement</u>	C
<u>Schedule of Reported, Adjusted, and Allowed Eligibility</u>	D
<u>Schedule of Reported, Adjusted, and Allowed Meals</u>	E

APPENDIX B

XYZ Child Care Center, Inc.

SUMMARY OF CLAIM

Exhibit A

Agreement No: xxxxx-CACFP-xx-xx-CS
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

This image has been removed for accessibility purposes.

Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

APPENDIX B

XYZ Child Care Center, Inc.
STATEMENT OF CLAIM
Exhibit B
Agreement No: xxxxx-CACFP-xx-xx-CS
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

Reimbursement per Examination \$1,053,696
(Supported by Exhibits B, C, D, and E)

Program Reimbursements Claimed and Received 1,112,172

Amount Due from Agency (\$58,475)

Footnotes:

- 1) A footnote to include income that accrued to the program.
- 2) A footnote to reflect if the CACFP claims for reimbursement have been paid or not.
- 3) A footnote to include revised claims.

XYZ Child Care Center, Inc.
SCHEDULE OF REPORTED, ADJUSTED, AND ALLOWED MEALS AND EARNED REIMBURSEMENT
Exhibit C

Agreement No: xxxxx-CACFP-xx-xx-CS
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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XYZ Child Care Center, Inc.
SCHEDULE OF REPORTED, ADJUSTED, AND ALLOWED ELIGIBILITY
Exhibit D

Agreement No: xxxxx-CACFP-xx-xx-CS
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

XYZ Child Care Center, Inc.
SCHEDULE OF REPORTED, ADJUSTED, AND ALLOWED MEALS
Exhibit E Page 1 of 2
Agreement No: xxxxx-CACFP-xx-xx-CS
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

XYZ Child Care Center, Inc.
SCHEDULE OF REPORTED, ADJUSTED, AND ALLOWED MEALS
Exhibit E Page 2 of 2
Agreement No: xxxxx-CACFP-xx-xx-CS
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

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, 2021

APPENDIX C

**XYZ Day Care Home, Inc.
Fiscal Year Ended June 30, 2021**

**Illustrative Schedules
Sponsor of Day Care Homes**

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<u>Schedule of Reported, Adjusted, and Allowed Meals and Homes</u>	C
<u>Determination of Allowable Administrative Reimbursement</u>	D
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APPENDIX C

XYZ Child Care Center, Inc.

SUMMARY OF CLAIM

Exhibit A

Agreement No: xxxxx-CACFP-xx-xx-DCH
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

This image has been removed for accessibility purposes.

Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

XYZ Child Care Center, Inc.
SCHEDULE OF REPORTED, ADJUSTED, ALLOWED MEALS, SITES AND EARNED REIMBURSEMENT
Exhibit B

Agreement No: xxxxx-CACFP-xx-xx-DCH
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

This image has been removed for accessibility purposes.

Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

XYZ Child Care Center, Inc.
SCHEDULE OF REPORTED, ADJUSTED, ALLOWED MEALS AND HOMES
Exhibit C

Agreement No: xxxxx-CACFP-xx-xx-DCH
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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Please contact AuditSubmissions@cde.ca.gov or CDSS at AuditsOffice@dss.ca.gov if you have any questions.

APPENDIX C

XYZ Child Care Center, Inc.
DETERMINATION OF ALLOWABLE ADMINISTRATIVE REIMBURSEMENT
Exhibit D

Agreement No: xxxxx-CACFP-xx-xx-DCH
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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XYZ Child Care Center, Inc.
**SCHEDULE OF REPORTED, ADJUSTED, AND ALLOWED ADMINISTRATIVE
INCOME
Exhibit E**

Agreement No: xxxxx-CACFP-xx-xx-DCH
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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XYZ Child Care Center, Inc.
DETERMINATION OF REPORTED, ADJUSTED, AND ALLOWED ADMINISTRATIVE COST
Exhibit F
 Agreement No: xxxxx-CACFP-xx-xx-DCH
 FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

<u>Period</u>	<u>Reported</u>	<u>Adjusted</u>	<u>Allowed</u>
July	\$23,485	0	\$23,485
August	24,655	0	24,655
September	28,673	0	28,673
October	21,657	0	21,657
November	23,543	0	23,543
December	20,477	0	20,477
January	23,238	0	23,238
February	23,554	0	23,554
March	28,117	0	28,117
April	21,233	0	21,233
May	20,501	0	20,501
June	<u>23,182</u>	<u>0</u>	<u>23,182</u>
Total	<u>\$282,315</u>	<u>\$0</u>	\$282,315
Income			(6,000)
		Net Allowed Administrative Costs	<u>\$276,315</u>

XYZ Child Care Center, Inc.
DETERMINATION OF BUDGET DEFICIT (ADJUSTMENTS)
Exhibit G
Agreement No: xxxxx-CACFP-xx-xx-DCH
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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XYZ Child Care Center, Inc.
DETERMINATION OF ALLOWED PROVIDER PAYMENTS (FEDERAL & STATE)
Exhibit H

Agreement No: xxxxx-CACFP-xx-xx-DCH
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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**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, 2021**

**Little Country School
Fiscal Year Ended September 30, 2021**

Illustrative Schedules

Sponsor of Independent Centers

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	<u>Exhibit</u>
<u>Summary of Claim</u>	A
<u>Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement</u>	B
<u>Schedule of Reported, Adjusted, and Allowed Meals</u>	C
<u>Schedule of Reported, Adjusted, and Allowed Eligibility</u>	D
<u>Reconciliation of Allowable Administrative Costs</u>	E
<u>Schedule of Allowed Administrative Costs</u>	F
<u>Schedule of Allowed Funds Retained</u>	G

LITTLE COUNTRY SCHOOL
SUMMARY OF CLAIM
Exhibit A
Agreement No: xxxxx-CACFP-xx-xx-IC
FOR THE PERIOD OCTOBER 1, 2020 TO SEPTEMBER 30, 2021

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LITTLE COUNTRY SCHOOL
SCHEDULE OF REPORTED, ADJUSTED AND ALLOWED MEALS AND EARNED REIMBURSEMENT
Exhibit B
Agreement No: xxxxx-CACFP-xx-xx-IC
FOR THE PERIOD OCTOBER 1, 2020 TO SEPTEMBER 30, 2021

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LITTLE COUNTRY SCHOOL
SCHEDULE OF REPORTED, ADJUSTED AND ALLOWED MEALS
Exhibit C
Agreement No: xxxxx-CACFP-xx-xx-IC
FOR THE PERIOD OCTOBER 1, 2020 TO SEPTEMBER 30, 2021

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LITTLE COUNTRY SCHOOL
SCHEDULE OF REPORTED, ADJUSTED AND ALLOWED ELIGIBILITY
Exhibit D
Agreement No: xxxxx-CACFP-xx-xx-IC
FOR THE PERIOD OCTOBER 1, 2020 TO SEPTEMBER 30, 2021

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APPENDIX D

LITTLE COUNTRY SCHOOL
RECONCILIATION OF ALLOWABLE ADMINISTRATIVE COSTS
Exhibit E
Agreement No: xxxxx-CACFP-xx-xx-IC
FOR THE PERIOD OCTOBER 1, 2020 TO SEPTEMBER 30, 2021

(1)	Total Reported Funds Retained by Sponsor	Exhibit G	<u>\$489,419</u>
	Less Net Administrative Costs Allowed – Actual	Exhibit F	465,735
	Total Excess Funds Retained		<u>\$ 23,684</u>
(2)	Total Allowed Funds Retained (Per Audited Meals)	Exhibit G	<u>\$489,113</u>
	Less Net Administrative Costs Allowed – Actual	Exhibit F	465,735
	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
SCHEDULE OF ALLOWED ADMINISTRATIVE COSTS
Exhibit F
Agreement No: xxxxx-CACFP-xx-xx-IC
FOR THE PERIOD OCTOBER 1, 2020 TO SEPTEMBER 30, 2021

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LITTLE COUNTRY SCHOOL
SCHEDULE OF ALLOWED FUNDS RETAINED
Exhibit G

Agreement No: xxxxx-CACFP-xx-xx-IC
FOR THE PERIOD OCTOBER 1, 2020 TO SEPTEMBER 30, 2021

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APPENDIX E: ILLUSTRATIVE SCHEDULES
SCHOOL NUTRITION PROGRAM
SPONSOR OF SCHOOL FOOD AUTHORITY
XYZ SCHOOL NUTRITION, INC.
FISCAL YEAR ENDED JUNE 30, 2021

**XYZ School Nutrition, Inc.
Fiscal Year Ended June 30, 2021**

Illustrative Schedules

Sponsor of School Food Authority

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	<u>Exhibit</u>
<u>Summary of Claim</u>	A
<u>Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement</u>	B
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XYZ SCHOOL NUTRITION, INC.
SUMMARY OF CLAIM
Exhibit A
Agreement No: xxxxx-SN-xx-xx
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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XYZ SCHOOL NUTRITION, INC.
SCHEDULE OF REPORTED, ADJUSTED, AND ALLOWED MEALS AND EARNED REIMBURSEMENT
Exhibit B

Agreement No: xxxxx-SN-xx-xx
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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XYZ SCHOOL NUTRITION, INC.
SCHEDULE OF REPORTED, ADJUSTED, AND ALLOWED ELIGIBILITY
Exhibit C
Agreement No: xxxxx-SN-xx-xx
FOR THE PERIOD JULY 1, 2020 TO JUNE 30, 2021

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