

CALIFORNIA DEPARTMENT OF EDUCATION
AUDIT GUIDE



July 2023

CALIFORNIA DEPARTMENT OF EDUCATION

AUDIT GUIDE

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DEFINITION OF ACRONYMS

21st CCLC	21st Century Community Learning Centers
A&I	Audits and Investigations Division
AASC	Annual Audit Status Certification
ABE	Adult Basic Education
AICPA	American Institute of Certified Public Accountants
AL	Assistance Listing
ASE	Adult Secondary Education
AU-C	Clarified Statement on Auditing Standards
AUD	Audited Attendance and Fiscal Report or Audited Fiscal Report
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
CDSS	California Department of Social Services
CFR	Code of Federal Regulations
CNIPS	Child Nutrition Information Payment System
CPA	Certified Public Accountant
CSAM	California School Accounting Manual
CT&C	Contract Terms and Conditions
DHHS	United States Department of Health and Human Services
EC	California <i>Education Code</i>
EEP	Early Education Programs
EENFS	Early Education and Nutrition Fiscal Services
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
G&A	General and Administrative
GAAP	Generally Accepted Accounting Principles 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
OMB	Office of Management and Budget
PA	Public Accountant
PCA	Program Cost Account
RFP	Request for Proposal
SCO	State Controller's Office
SFSP	Summer Food Service Program
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). 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 2022–23, the 2023 revision of *Audit Guide* supersedes all previous *Audit Guide* revisions in its entirety. This revision of the *Audit Guide* is effective July 1, 2023, and should be used by independent auditors in conducting audits of state and federal programs, including, but not limited to:

- California State Preschool Program (CSPP)
- School Nutrition Programs (SNP)
- Summer Food Service Program (SFSP)
- Adult Education
- After School Education and Safety (ASES)
- 21st Century Community Learning Centers (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 child care and development programs (CD) to the California Department of Social Services (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 (CalWORKs) 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)
- California Child Care Initiative Project (CCIP)
- Local CD Planning Councils (CLPC)
- Child and Adult Care Food Program (CACFP)

More information regarding the transition can be viewed here:

<https://www.cde.ca.gov/fg/au/pm/>.

The CDE retains administration of early education programs (EEP), specifically the CSPP, the SFSP, and SNP. The Adult Education, ASES and 21st CCLC programs are not affected by the transition and will continue to be administered by the CDE.

AUDIT REQUIREMENTS

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

- A. *California Education Code (EC)*, Section 8335, 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 contractor's activities to comply with the financial and compliance requirements of contracts received from the CDE.
- 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 arrange 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 17823, requires EEP 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 Generally Accepted Accounting Principles in the United States of America (GAAP).
- B. The agency establishes and maintains effective internal controls to discharge management responsibilities and adequately safeguard state and federal interests.
- C. State and federal funds are 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

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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 firms' overall auditing and attestation practice to be governed by AICPA Statements on Quality Control Standards No. 8. These standards mandate 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 people qualified to conduct peer reviews perform these reviews. Both these 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.

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.

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- c. The date by which the final audit report will be provided (see audit report submission and due date requirements in Chapter 200).
- d. A statement to the effect that the auditor shall make available, on request by CDE, a copy of all audit documentation pertaining to the audit.
- e. Assurance that the CPA will provide the audit report and any management/communication letters directly to the CDE (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 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

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. 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 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 EEP, Nutrition, Adult Education, ASES, 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 of *Uniform Grants Guidance*. LEAs are also subject to the requirements of the *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*.

A. Audits of Agencies with EEP

When an agency receives EEP funding to operate one or more EEP 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 EEP funding, plus other funding to operate Nutrition, Adult Education, ASES, and/or 21st CCLC programs.

B. Audits of Agencies without EEP

When an agency operates Nutrition, Adult Education, ASES and/or 21st CCLC programs, but not EEP, 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.

EARLY EDUCATION CONTRACTOR AUDITS**207**

An agency that enters into a contract with the CDE to operate EEP 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 \$100,000 or more in state funding from all state agencies combined. When a contractor receives less than \$100,000 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 8335(f)1.

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 early education 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 include counties, cities, and tribal governments.

- A. A local government agency that expends less than \$750,000 in federal awards during its fiscal year must provide CDE with the following information:
 1. An Annual Comprehensive 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 Annual Comprehensive 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 EEP. 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 separately from the 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 the CDE with an audit reporting package that contains:
 1. An Annual Comprehensive Financial Report, as described above.
 2. The reports and schedules required by *Uniform Grants Guidance*, Subpart F
 3. Supplementary Information and Other Required Information listed in Exhibit A of this chapter, as applicable. A Program Audit would be acceptable in fulfilling this requirement (see Section 208.A.2).

NUTRITION, ADULT EDUCATION, ASES, AND 21ST CCLC AUDITS**209**

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

An audit of Nutrition and/or Adult Education 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 with an audit that includes an Annual Comprehensive 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 and/or Adult Education program funding but expends less than \$750,000 in federal awards during its fiscal year, an audit is not required.

Per *EC* Section 8482.3(f)(5) and guidance issued by the CDE's Expanded Learning Division, an annual independent audit report for agencies that receive 21st CCLC and/or ASES funding is required regardless of the amount of state or federal funding expended. The audit must be conducted in accordance with GAAS and GAS. Additionally, if an agency that receives 21st CCLC and/or ASES funding expends \$750,000 or more in federal funding, the audit report must meet the requirements of *Uniform Grants Guidance*, Subpart F.

AUDIT REPORT SUBMISSION INSTRUCTIONS**210****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 sent to agencies in mid-August. This information can also be requested by emailing AuditSubmissions@cde.ca.gov.

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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

Agencies that operate programs administered by CDE and those that transferred to CDSS are required to submit their audit report to both departments. Audit reports, quality review checklists, management letters (if applicable), and subcontractor audit reports (if applicable) may be submitted to CDSS by email at 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](#))

Contractor 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 administering program office – See [Section 214](#)

Contractor audit report 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](#)

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- **15th day of the fifth month after fiscal year-end**
Electronic submission or postmarked 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 the administering program office
– See Section 214

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 an EEP, 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 EEP, the Single Audit report and Annual Comprehensive 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 and ASES Programs

Non-LEA agencies operating a 21st CCLC and/or ASES program must submit an annual audit report **by December 15 of each year**, in accordance with *EC* sections 8482.3(f)(5) and 8484.75 and guidance issued by the CDE's 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

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c. Community Colleges

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

d. School Districts and Charter Schools

School districts and charter schools must submit an annual audit report **by December 15 of each year**, in accordance with *EC* sections 41020 and 47605.6(m), 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 below.

f. For-Profit Organizations

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

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 electronically submit to the online 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.

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 upon issuance.

D. Subcontracts for Operating Early Education Programs

A contractor may choose to enter into a subcontract agreement with another organization where the subcontractor operates the contractor's EEP. 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. Note that affected subcontractors exclude those that operate EEP only for school districts. Also, see Section 345 for guidance, including reporting on the AUD form.

SINGLE EXTENSION PER YEAR FOR EARLY EDUCATION PROGRAM AUDITS

212

Except for EEP contractors on conditional status, 5 CCR, Section 17825, 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 the 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 17825, maintains that Contractor Audits of EEP 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 EEP, 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 SNP sponsor does not submit to CDE a timely and acceptable 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 the state 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

230

The Child Nutrition Information and 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 care and development contract payment histories.

Note that CPARIS reports identify amounts paid to the agency. The CDE is 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 CD funding from the CDE and/or CDSS have access to these systems. Additionally, reports from these systems are available upon request from the 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, require 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 of the need to extend the retention period. The CDE reserves the right to perform quality control reviews of audit documentation to determine whether audits have been performed in conformity with GAS. Audit documentation shall be made available upon request.

The *EC* Section 33421 maintains that private agencies that receive state funds may be audited pursuant to *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 EEP, Nutrition, Adult Education, and/or 21st CCLC programs must annually report to CDE the total amount of federal and state funds expended during the past fiscal year on an Annual Audit Status Certification (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 the CDE (Section 206).

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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>. 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 the 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
- 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: AuditsOffice@dss.ca.gov

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

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). 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 the CDE.

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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.

- **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
 - Schedule of Claimed Budget Impasse Credit 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)**
 - **School Nutrition Program³:**
 - Summary of Claim
 - Schedule of Reported, Adjusted, and Allowed Meals and Earned Reimbursement
 - Schedule of Reported, Adjusted, and Allowed Eligibility
 - **Summer Food Service Program^{3,4}:**
 - 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

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- **Other Required Information**

- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Independent Auditor's 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
- Early Education Programs Quality Review Checklist

Foot Notes:

- ¹ For audits of local governments, this information is included in the entity's Annual Comprehensive 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.
- ³ Exclude when there are no Program findings and/or over/underpayments.
- ⁴ Refer to Section 440 for additional information on Summer Food Service Program.

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EXHIBIT B: AUDIT DUE DATES

For Contractors with a FYE	EEP – Contractor Audit Due	EEP – Audit to Include Reconciliation to State FYE	EEP – Not-for-Profit Single Audit Due	EEP – Local Government Supplementary Information Due	EEP – Local Government ACFR and/or Single Audit Due ^{2,5}	Nutrition Only – Single Audit Due	Adult Education Only – Single Audit Due
12/31/2023	5/15/2024	June 2023	5/15/2024	5/15/2024	9/30/2024	9/30/2024	6/30/2024
9/30/2023	2/15/2024	June 2023	2/15/2024	2/15/2024	6/30/2024	6/30/2024	3/31/2024
8/31/2023	1/15/2024	June 2023	1/15/2024	1/15/2024	5/31/2024	5/31/2024	2/28/2024
6/30/2023	11/15/2023	3	11/15/2023	11/15/2023	3/31/2024	3/31/2024	12/31/2023⁴
3/31/2023	8/15/2023	June 2022	8/15/2023	8/15/2023	12/31/2023	12/31/2023	9/30/2023
2/28/2023	7/15/2023	June 2022	7/15/2023	7/15/2023	11/30/2023	11/30/2023	8/31/2023
1/31/2023	6/15/2023	June 2022	6/15/2023	6/15/2023	10/31/2023	10/31/2023	7/31/2023

¹ EEP 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 an Annual Comprehensive Financial Report 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 and ASES 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

Revenue and Support	Statement of Activities 1/1/23 to 12/31/23	Minus All Transactions 7/1/23 to 12/31/23	Minus Non-CD Transactions 1/1/23 to 6/30/23	Plus CD Transactions 7/1/22 to 12/31/22	Total CD Program¹ 7/1/22 to 6/30/23
Federal Grants	\$2,800,000	\$1,500,000	\$1,145,000	\$165,000	\$320,000
State Grants	1,350,000	800,000	240,000	75,000	385,000
Other	500,000	425,000	70,000	4,500	9,500
Total Revenue and Support	\$4,650,000	\$2,725,000	\$1,455,000	\$244,500	\$714,500

Expenses	Statement of Activities 1/1/23 to 12/31/23	Minus All Transactions 7/1/23 to 12/31/23	Minus Non-CD Transactions 1/1/23 to 6/30/23	Plus CD Transactions 7/1/22 to 12/31/22	Total CD Program¹ 7/1/22 to 6/30/23
1000 Certificated Salaries	\$1,743,000	\$1,043,885	\$567,795	\$96,073	\$227,393
2000 Classified Salaries	1,162,000	695,923	378,530	64,049	151,596
3000 Employee Benefits	726,000	434,802	206,500	34,941	119,638
4000 Books and Supplies	300,000	169,670	92,288	15,615	53,658
5000 Services and Other	550,000	289,396	177,410	20,019	103,213
6000 Capital Outlay	50,000	29,945	16,288	2,756	6,523
Other	19,000	11,379	6,189	1,047	2,479
Total Expenses	\$4,550,000	\$2,675,000	\$1,445,000	\$234,500	\$664,500

¹From Combining Statement of Activities

CHAPTER 300: REPORTING EARLY EDUCATION PROGRAMS

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INTRODUCTION**300**

For EEP, the CDE requires contractors to submit a fiscal and compliance audit each year that includes the *Audited Attendance and Fiscal Reports (AUD)* forms. The AUD forms represent the contractor's audited claim for reimbursement of an EEP. 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*
- An AUD form for each EEP contract, completed in accordance with the program regulations, requirements, and Contract Terms and Conditions (CT&C) for EEP
- A completed EEP Quality Review Checklist

The GAAP and EEP 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 EEP 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 in the organization's financial statements.
- Under EEP 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. These transactions would be reported on AUD forms and supporting supplementary schedules.

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

The following sections describe how to report EEP 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 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 the program revenue and expenses.

As of July 1, 2021, the CDE only administers EEP, specifically the CSPP and CSPP related support contracts, and only EEP are subject to the requirements of this guide. Audit requirements for the other CD programs can be found on the CDSS's website at <https://www.cdss.ca.gov/inforesources/cdss-programs/internal-audits/contracting-agencies-audit-guidelines-and-resources>.

EEP 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 Early Education and Nutrition Fiscal Services (EENFS), 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 *Enrollment, Attendance, and Fiscal Reporting, and Reimbursement Procedures for Early Education Contractors*, commonly referred to as the *EENFS Fiscal Handbook*, which can be found on CDE's webpage at: <http://www.cde.ca.gov/fg/aa/cd/>.

Any federally funded portion of EEP falls under two Assistance Listing (AL) numbers:

1. CD Block Grant – AL 93.575
2. Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF) – AL 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 Account (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 in the following sections.

COMPLETING THE AUD FORMS

310

An EEP contractor receives funds (advances) from EENFS throughout a contract period for operating an EEP 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 determines 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 support contracts or other programs not requiring the reporting of enrollment and attendance; and (3) an *Audited Preschool Reserve Account Activity Report* must be used for preschool reserve account reporting. 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").

Additional guidance on reporting EEP information, can be found in the CDE publication titled *Enrollment, Attendance, and Fiscal reporting, and Reimbursement Procedures for Early Education Contractors* (see website at: <http://www.cde.ca.gov/fq/aa/cd/>).

Important: When completing the AUD forms for EEP contracts (e.g., form AUD 8501), note that Column A, titled "Cumulative Fiscal Year per CPARIS," is to contain amounts from Column C of the respective June 30 EENFS forms (e.g., EENFS 8501 Cumulative Fiscal Year). The independent auditor must:

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

Chapter 300 – Reporting Early Education Programs

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.

B. Days of Enrollment, Attendance, and Operation Section

Days of enrollment and attendance are reported in AUD 8501 forms 1 – 4 as appropriate for the types of children served and services provided. A separate form is required for each service county. The information provided in these forms is summarized in section 2 of the AUD 8501. Days of operation are directly reported in AUD 8501 section 2. The days of enrollment, operation, and attendance do not apply 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 *Enrollment, Attendance, and Fiscal Reporting, and Reimbursement Procedures for Early Education Contracts* located here: <https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.cde.ca.gov%2Ffg%2Faa%2Fcd%2Fdocuments%2Ffiscalhandbook2223.docx&wdOrigin=BROWSELINK>.

C. Revenue and Reimbursable Expenses Sections

Do not report on the AUD the EEP contract payments (apportionments) received for the program from the CDE 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)
 - Summer Food Service Program (SFSP)
 - County maintenance of effort (MOE) – Funds received by a county to meet the requirements of *EC* Section 8260. These funds may be considered unrestricted unless specifically restricted by the county granting the funds.

Chapter 300 – Reporting Early Education Programs

- 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.
 - Transfers from reserve fund – Funds transferred from the preschool reserve account to pay for reimbursable expenses.
 - Family fees for certified children – Fees collected by the contractor to pay expenses for certified children being served under the contract. (Any family fees for non-certified children are to be reported as *Unrestricted Income*).
 - Interest on apportionment payments – Interest earned on advanced contract payments.
2. **Unrestricted Income** – Program income that has no restrictions regarding use, including income for services to non-certified 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 8207(f)].

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

D. Supplemental Revenue and Expenses Sections

1. **Supplemental Revenue** – Program income (restricted or unrestricted) used to pay for EEP program expenses that are not reimbursable by the contract. The funds are intended to pay for projects or benefits beyond the basic EEP 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 315

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 Column C of the fiscal pages of the AUD form for each EEP contract must agree with the expenditures reported on the *Schedule of Expenditures by State Categories* (example in [Appendix A](#)). Specifically, the AUD form total reimbursable expenses 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 EEP-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 EEP 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*

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Categories, with minor differences, is reported also on the *Combining Statement of Activities*. The *Combining Statement of Activities*, which is described below, 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 EEP contract, both individually and in total; and (2) any non-EEP 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 EEP 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 EEP contracts with the identifying contract numbers and to any applicable non-EEP 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 EEP contracts and for non-EEP programs (e.g., Head Start).

C. Reconciliation of CD and GAAP Expense Reporting

When a difference exists between EEP 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 EEP and other child care and development 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 EEP 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 in the following sections.

**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 CT&C, Section V.D. Any amount authorized for start-up expenses would be provided on the face sheet of the contract. The CT&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.

For additional guidance, refer to the CDE publication titled, *Enrollment, Attendance, and Fiscal Reporting, and Reimbursement Procedures for Early Education Contracts*. 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 (CT&C, Section V.D). 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*.

BUDGET IMPASSE CREDIT EXPENSE (SERVICE LEVEL EXEMPTION)

325

With prior CDE approval, a contractor may be able to claim 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, *Enrollment, Attendance, and Fiscal Reporting, and Reimbursement Procedures for Early Education Contracts*.

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 items 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 EEP Contract Funds**

1. Equipment acquired with EEP 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 be reported on the *Schedule of Expenditures by State Categories* under the appropriate object code, 4000, 6400, or 6500, and the benefiting EEP contract (see [Appendix A - Schedule of Expenditures by State Categories](#)). In addition, 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 report equipment on the schedule 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 report equipment on the schedule 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 system, 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,

Chapter 300 – Reporting Early Education Programs

the cost of such equipment shall be prorated among the programs, according to benefits received (CT&C, Section III.1.2.C.). 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 is no expenditure to report.

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

B. Equipment Acquired with Non-EEP Funds

Capitalized equipment acquired with non-EEP funds that meet the requirements of the CT&C and are utilized in EEP may be reimbursable as depreciation or use allowance. According to 5 CCR, Section 17805 and CT&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., non-certified 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 EEP contract funds, which might otherwise be capitalized for accounting purposes, should be expensed and reported in the contract year it was purchased. Conversely, EEP reporting excludes depreciation of EEP program assets that were donated or purchased with EEP 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 EEP 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 childcare 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. The CRRL lease payments may be capitalized for accounting purposes but are presented as expenditures in EEP reports under the Objects 6100/6200 *Other Approved Capital Outlay*. Note: **Do not** report CRRL lease payments in Object 5000, and do **not** include them in the base for calculating indirect costs.

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B. Renovation and Repairs

Renovation and repairs are improvements of childcare facilities, facility sites, and adjacent grounds where the improvements do not unnecessarily 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 EEP contracts if those costs are allowable under program requirements (CT&C, Section III.C).

C. EEP Contract Funded Expenditures for Renovation and Repairs

For accounting purposes, renovation and repairs purchased under EEP 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.)

EEP 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.

Chapter 300 – Reporting Early Education Programs

A *Schedule of Claimed Expenditures for Renovations and Repairs* (example in Appendix A) is required even if there are no expenditures to report. Only the contractor's capitalized expenditures for renovations and repairs should be reported on the *Schedule of Claimed Expenditures for Renovations and Repairs* in the appropriate CD contract column. Do not report non-capitalized expenses on the schedule.

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, 17810 and CT&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 procurements to circumvent the bidding and preapproval process.

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

Non-EEP funded capitalized renovations and repairs that meet the requirements of the CT&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 CT&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., EEP contract funds or other government funds), fully depreciated, or on idle or excess facilities. Depreciation of relocatable 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).

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 EEP purposes. Conversely, EEP reporting excludes depreciation of EEP 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 are related to the provision of EEP 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 Reimbursable Expenses" line.

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

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 CT&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-profit), or other appropriate governing bodies (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 EEP 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 EDUCATION SERVICES

345

An organization that operates an EEP program under a direct service contract with the CDE is called a contractor. The contractor may choose to enter into an agreement with another organization to provide management and/or direct services for one or more of the contractor’s EEP contracts, 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 the EEP 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 Early Education 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* or applicable reconciling schedule.
5. AUD Forms: Report the subcontract revenue and expenses plus any revenue and expenses of 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 Renovations and Repairs*: 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's 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 EEP contracts.

PRESCHOOL RESERVE ACCOUNT

350

Preschool reserve account funds are state CSPP 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. Agencies with both CDE and CDSS administered CD programs may have multiple reserve accounts. Each account must be maintained separately due to different maximum limits and use requirements.

Auditors should ensure that preschool reserve account funds are included on the agency's *Statement of Financial Position/Balance Sheet* 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 preschool reserve account are required to submit with the annual audit report an Audited Preschool Reserve Account Activity Report, Form AUD 9530A (sample in Appendix A) to verify the activity of the preschool reserve account. The contractor should include AUD 9530A in the audit report even if the account has a zero balance.

The AUD 9530A 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 Preschool Reserve Account Activity Report. Any transfers to the reserve and last year's ending balance should agree to the prior year's Preschool Reserve Account Status Report, form EENFS 9530 after audit review. Also, if no interest was reported on a preschool reserve account balance, the contractor must explain why in the AUD 9530A comments section.

For additional information on preschool reserve accounts, see the CT&C Section VI.P 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 EEP expenditures are identified from the *Combining Statement of Activities*, and 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 may be responsible for reviewing audit reports for CD program agencies.

Chapter 300 – Reporting Early Education Programs

To streamline the audit report review process and reduce or eliminate the need for follow-up questions that arise as the CDE reviews an audit report submitted to meet the EEP 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 EEP Agencies

The quality review checklist is available on A&I's webpage, <https://www.cde.ca.gov/fg/au/pm/>, 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 the CDE requesting a revision. The quality review checklist is a separate document from the audit report and must 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), oversees 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 AL numbers administered by the CDE are as follows:

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

The above-listed nutrition programs are reported under two main categories: (1) SNP and (2) SFSP. For a description of the nutrition programs, see CDE's web page at: <http://www.cde.ca.gov/ls/nu/>.

Nutrition schedules are required for all SNP Single Audits when there are program related overpayments, underpayments, or findings and for all SNP program-specific audits.

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 schools and other agencies to provide milk to children at reasonable prices.

SNP REIMBURSEMENT CLAIMS REPORTING 432

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/fq/aa/nt/snp.asp>.

SNP REQUIRED AUDIT REPORT SCHEDULES 434

Sponsor of School Food Authority (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

SUMMER FOOD SERVICE PROGRAM (SFSP) 440

The SFSP 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**

Adult Education programs serve state and national interests by providing life-long educational opportunities and support services to all adults. 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) (AL 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 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’s Adult Education 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 AND AFTER SCHOOL EDUCATION AND SAFETY PROGRAM**

Chapter 600 – Reporting 21st Century Community Learning Centers Program and
After School Education and Safety Program

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21st CENTURY COMMUNITY LEARNING CENTERS 610

The purpose of the 21st CCLC program is to provide five-year federal 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/desc21stcclc.asp>.

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

AFTER SCHOOL EDUCATION AND SAFETY 615

The purpose of the ASES Program is to create incentives for establishing locally driven expanded learning programs, including after school programs that partner with public schools and communities to provide academic and literacy support, and safe, constructive alternatives for youth. The ASES Program involves collaboration among parents, youth, and representatives from schools, governmental agencies, individuals from community-based organizations, and the private sector. For additional information and resources, see the website at: <https://www.cde.ca.gov/ls/ex/asesdescrip.asp>.

AUDIT REPORTING AND ADMINISTRATION 620

21st CCLC and ASES agencies are required to submit an annual independent audit to the CDE pursuant to *EC* Sections 8421(f)(8)(B), 8484.8(b)(3), and 8482.3(f)(5).

The 21st CCLC and ASES agencies 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. 21st CCLC and ASES agencies that receive and expend federal funding of less than \$750,000 must submit an audit conducted in accordance with GAAS and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

AUDITING COMPLIANCE 625

Guidance on auditing compliance for 21st CCLC, including examples of audit procedures and related deficiencies that have surfaced in previous audits, is provided in [Chapter 700](#).

Audit procedures for ASES can be found in Education Audit Appeals Panel's *Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* located here: <https://eaap.ca.gov/>.

CHAPTER 700: AUDITING COMPLIANCE WITH PROGRAM REQUIREMENTS

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INTRODUCTION

The programs identified below are funded by or through the CDE. These programs are subject to audit, as authorized by the laws and regulations cited in Section 120. The following audit procedures are presented to help the auditor assess the 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 federal- funded EEP, Nutrition, Adult Education, and 21st CCLC programs.

A. Early Education Programs

EEP contracts are funded from a combination of state and federal funds. The contracts will specify on the face sheet the amount of federal funds included in the total contract amount and the AL, 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:

The 21st CCLC program is described on the CDE website at: <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.

Chapter 700 – Auditing Compliance with Program Requirements

The AL numbers for applicable federal programs must be included in the *Schedule of Expenditures of Federal and State Awards* (see [Appendix A](#)).

- A. Early Education Programs
 - 1. CD Block Grant – AL 93.575
 - 2. Child Care Mandatory and Matching Funds of the CCDF – AL 93.596

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

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

- D. 21st CCLC – AL 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 enforces the requirements of the *Uniform Grants Guidance* as part of its responsibility to ensure that the federal and state awards to EEP 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 costs that cannot be readily assigned to one specific program or one specific line item within a program.

Chapter 700 – Auditing Compliance with Program Requirements

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 where 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 bodies (local governments).

The CT&C, Section V.B., addresses requirements pertaining to indirect costs. Also, the CCR provides regulatory guidance at Title 5, Section 17700(ak), *Definition of Indirect Cost Allocation Plan*, and Title 5, Section 17805(j), *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. Examples of cost allocation bases are presented below but 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 CT&C for EEP, 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 *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 directly charged and allocated costs may be helpful on a conceptual level. For specific guidance, see the CT&C for EEP in which Section VI.F.4 addresses, for example, time sheets for multi-funded employees. Note that most operating costs of center-based programs are payroll costs. Together, the *CSAM* and the CT&C provide that all employees must maintain time sheets,

which are sometimes referred to as personnel activity reports. For local governments, each time sheet must be signed by the individual employee. For a not-for-profit organization, each time sheet must be signed by the individual employee, or a responsible supervisory official having first-hand knowledge of the activities performed by the employee. For federal programs (e.g., Nutrition, Adult Education, and 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 most 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 and 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 reviews annual financial and compliance audits submitted by contractors and conducts performance audits or limited scope reviews of selected programs. Consequently, the A&I does not provide detailed recommendations for developing an organization's cost allocation plan, which later could become the subject of their review. The A&I 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 EEP, 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. If the auditor reports findings relating to the CSPP, applicable adjustments should be made to the AUD.

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 CT&C for EEP, and other state and federal requirements associated with carrying out EEP, 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 EEP, 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 17804-17807, and in the *CT&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 school nutrition programs 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 *CT&C*, Section II.O.

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 in the *EC*, 5 *CCR*, *CT&C*, *Enrollment, Attendance, and Fiscal Reporting*, and *Reimbursement Procedures for Early Education Contracts*, 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.

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 EEP contractor maintains written documentation of the rationale used in determining direct and administrative costs for EEP (*CT&C*, Section V.C).
 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 as 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 does not permit indirect costs).

If an EEP contractor claimed indirect costs, verify that the contractor has a written cost allocation plan available for review (CT&C, Section V.B.1). The plan should be approved by the board of directors (not-for-profits), or other appropriate governing bodies (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 (excluding 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 an EEP, 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 CT&C, Section V.B; and the *Enrollment, Attendance, and Fiscal Reporting, and Reimbursement Procedures for Early Education Contracts – 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 EEP (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:

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1. Program Information – The identification number and type of each affected contract, grant, or other agreement.
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 *CT&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 the four types of programs:

1. EEP (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).

EARLY EDUCATION PROGRAMS**730**

The procedures for auditing compliance with EEP 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 services for children up 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 EEPs under one or more contracts with the CDE. Operation of EEPs by contractors is governed by the Act, described above, and the following regulations and guidelines:

- 5 CCR, Chapter 18.5, Section 17700 et seq.
- Applicable Contracts' CT&Cs
- CSAM
- *Uniform Grants Guidance*, Subpart E – Cost Principles

For additional EEP 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. EEP 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 that 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 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 (*CT&C*, section V).
6. Verify that the cost was charged to the appropriate contract period (*CT&C*, Section V.H).
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; *CT&C*, Sections V.A and V.B; 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 (*CT&C*, Section V.C).
9. Verify that depreciation expense was not claimed on facilities and equipment (*CT&C*, Section III.D) that were:
 - a. Purchased with CDE 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) (CT&C, Section II.O.9).
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 (CT&C, Section II.O.8).
- 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 EEP funds received; and (2) report interest earned on contract payments and any preschool 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 CCDF as specified in 5 CCR Section 17817.
3. If the contractor has a preschool reserve account, determine that the contractor's preschool reserve account funds are maintained in an interest-bearing account within the CCDF (*EC* Section 8336(d)).
4. Verify that the contractor properly accounted for and reported preschool reserve account amounts.
5. Verify that any interest earned on EEP contract funds is placed in a separate account within the CCDF and properly reported, as required (*EC* sections 8336(d) and 8271 and 5 CCR Section 17817).
6. For 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). Determine that the contractor made a reasonable effort to contact payees and identify the plan for reclaiming the funds. If the checks

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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. EEP 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 CT&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.

D. EEP 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.
 - 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.

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2. 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
3. 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.
4. 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.
5. 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. EEP Equipment

Audit Objective: Determine that the contractor maintains required records for equipment purchased with EEP 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 (*CT&C*, Section III.H.2).

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2. Verify that the contractor conducts a physical inventory of equipment at least every two years and reconciles it with property records (CT&C, Section III.H.2).
3. Ensure the contractor has a control system in place to safeguard equipment and prevent loss, damage, or theft (CT&C, Section III.H.1).
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 (CT&C, Section III).

F. EEP 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 (CT&C, Section III.D).
2. Verify depreciation or use allowance was claimed for only eligible, appropriate capital assets (CT&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 (CT&C, Section III.D).
4. Ensure that the contractor did not claim both depreciation and use allowance on the same asset.

G. EEP Maintenance of Effort

Audit Objective: Ensure that the contractor accurately reported maintenance of effort (MOE) funds.

Procedures

1. Verify that the MOE funds were used exclusively for EEP (EC 8260 and 8261).
2. 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 Non-certified Children.

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

H. EEP 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 *CT&C*, sections III, IV and V.

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 Division (5 *CCR*, sections 17810).
4. For a **private** contractor, verify that the contractor complied with subcontract bid requirements (5 *CCR*, sections 17798-17800). 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, replacements and improvements that exceed \$5,000.

I. EEP 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*, *CT&C*, and the *Enrollment, Attendance, and Fiscal Reporting, and Reimbursement Procedures for Early Education Contracts*.

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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.
4. Test a representative sample of family fees for subsidized children to ensure they were properly assessed, collected, recorded and reported according to program requirements (*EC* section 8252 and 5 *CCR*, Section 17809).
5. Determine that program income was expended in accordance with program requirements (5 *CCR* sections 17815 & 17817).

J. EEP Reporting

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

Procedures for Reporting Days of Enrollment, Attendance, and Operation

1. Determine that the contractor accurately classified and reported the days of enrollment, attendance, and operation on the EENFS forms (*CT&C*, sections VI.C, VI.D, VI.F and VI.G).
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 17821 and *CT&C*, Section VI.G.5).

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3. Ascertain that funds transferred from the preschool reserve account to pay for reimbursable expenses were reported in the same amount on: (1) the designated line of the contract's EENFS form; and (2) the Preschool Reserve Account Activity Report (EENFS 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 EENFS form.
2. Ensure that the contractor has sufficient documentation to substantiate reported reimbursable expenditures. Note that any non-reimbursable expenses enhancing the program 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 cost 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 expenses, 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 or expansion of a new EEP (CT&C, Section V.D).
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 CDE, 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 EEP services for children.
2. Determine that the contractor reported Supplemental Revenue only when its corresponding Supplemental Expenses were reported. Restricted

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supplemental 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. EEP Sub-recipient Monitoring

Audit Objective: Determine that the contractor complied with EEP subcontracting requirements (see Section 345).

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 17802 and CT&C, Section IV.B).
2. Verify that the subcontract agreement did not increase the contractor's cost of performance (CT&C, Section IV.E.7).
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 an appropriate audit from the subcontractor in accordance with program requirements (5 CCR, Section 17803, CT&C Section IV.F).

NUTRITION PROGRAMS

740

The procedures for auditing compliance with nutrition program requirements focus on agencies that administer the SNP and/or 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.

The CDE is authorized to administer federal nutrition programs for nonprofit, for-profit, governmental, and educational agencies, pursuant to EC, section 49531. Local educational agencies (LEAs) [e.g., county offices of education, school districts and charter schools], are typically not subject to the audit procedures in the *Audit Guide* and

are instead 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 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).

For additional nutrition program information and general audit reporting requirements, see Chapter 400 and Appendix B.

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.

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.

B. SNP – Procurement

Audit Objective: Determine if SNP 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:

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- 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 B).

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.)

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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 mis-categorizing 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 on 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.

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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*

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.
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.

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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 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.

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.

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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 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.

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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.
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 to 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, 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.

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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 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
- 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 8482-8484.65
 - 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.

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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 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.
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* Sections 8483.9(a) and 8484.75). 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: <https://www.cde.ca.gov/fg/ac/ic/index.asp> and click on the rates under the

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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.

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.
 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.

Chapter 700 – Auditing Compliance with Program Requirements

- 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.

Chapter 700 – Auditing Compliance with Program Requirements

- (d) Encompass 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, 20Y2

Illustrative Contractor/Single Audit Report

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 Audit of the Financial Statements***Opinion***

We have audited the accompanying financial statements of Example Entity, which comprise the statement of financial position as of June 30, 20Y2, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Example Entity as of June 30, 20Y2, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Example Entity, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Example Entity's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Example Entity's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Example Entity's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 Guides* issued by the California Department of Education and the California Department of Social Services, are presented for purposes of additional analysis and 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. Such 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 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 have also 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 the effectiveness of Example Entity's 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

APPENDIX A**EXAMPLE ENTITY
Statement of Financial Position
June 30, 20Y2****Assets**

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

Liabilities and Net Assets

Accounts payable	\$415,149
Accrued expenses and other current liabilities	578,477
Unearned revenue	32,500
Obligations under capital lease (Note 11)	10,303
Mortgage payable (Note 12)	8,877
Child development reserve (Note 14)	<u>60,500</u>
Current Liabilities	1,105,806
Obligations under capital lease, non-current portion (Note 11)	92,724
Mortgage payable, non-current portion (Note 12)	762,483
Other long-term liabilities	<u>200,000</u>
Total Liabilities	<u>2,161,013</u>
Net assets without donor restrictions	96,315
Net assets with donor restrictions (Note 4)	<u>207,104</u>
Total Net Assets	<u>303,419</u>
Total liabilities and net assets	<u>\$2,464,432</u>

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

APPENDIX A**EXAMPLE ENTITY
Statement of Activities
Year Ended June 30, 20Y2****Changes in Unrestricted Net Assets**

Unrestricted support	
Government contracts	\$11,628,200
Contributions and other income	361,829
Grantee contributions, in-kind income	<u>120,000</u>
Total unrestricted support, net	12,110,029
Other unrestricted revenues	
Transfers from preschool reserves	45,000
Family fees for certified children	142,750
Family fees for non-certified children	47,752
Interest	<u>13,485</u>
Total unrestricted revenues and support, net of direct benefits	<u>12,359,016</u>
Expenses	
Provider payments	2,430,000
Salaries	5,006,780
Employee benefits	1,206,996
Books and supplies	765,166
Rents and leases	27,417
Other operating expenses	1,736,659
Building repairs and maintenance	29,345
Equipment expense	7,150
Depreciation	98,312
Grantee contributions, in-kind expenditures	120,000
General and administrative	<u>854,872</u>
Total expenses	<u>12,282,697</u>
Increase in unrestricted net assets	76,319
Changes in Temporarily Restricted Net Assets	
Fixed assets purchased with state funds	31,500
Net assets released from restrictions	<u>0</u>
Increase in temporarily restricted net assets	<u>31,500</u>
Increase in Net Assets	107,819
Net Assets at Beginning of Year	<u>195,600</u>
Net Assets at End of Year	<u>\$ 303,419</u>

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

APPENDIX A

EXAMPLE ENTITY
Statement of Functional Expenses
Year Ended June 30, 20Y2

Expenses	Child Development Programs	Non-Child Development Programs	Administrative & Fundraising	Totals
Salaries	\$1,990,880	\$3,026,900	\$435,985	\$5,453,765
Payroll Taxes & Fringe Benefits	494,596	715,150	150,457	1,360,203
Direct Payments to Providers	0	2,430,000	0	2,430,000
Professional Services	248,615	661,884	11,968	922,467
Travel	6,994	18,066	1,710	26,770
Subcontracts	365,101	34,131	13,678	412,910
Rents and Leases	35,405	0	27,356	62,761
Building Maintenance & Renovation	17,967	11,378	14,533	43,878
Equipment	7,150	0	727	7,877
Food & Meals	56,309	210,934	0	267,243
Supplies	275,155	223,968	78,649	577,772
Telephone	15,890	51,666	4,702	72,258
Utilities	32,398	29,015	4,274	65,687
Insurance	25,680	7,484	2,309	35,473
Staff Training	1,500	20,609	1,539	23,648
In-Kind Space	24,000	96,000	0	120,000
Depreciation or Use Allowance	81,516	16,796	0	98,312
Start-Up	52,200	0	0	52,200
Other	7,315	135,173	106,985	249,473
TOTAL FUNCTIONAL EXPENSES	\$3,738,671	\$7,689,154	\$854,872	\$12,282,697

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

APPENDIX A**EXAMPLE ENTITY
Statement of Cash Flows
Year Ended June 30, 20Y2****Cash Flows from Operating Activities**

Increase in net assets	\$107,819
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:	
Depreciation	\$98,312
(Increase) decrease in government grants and contracts receivable	(25,630)
(Increase) decrease in other receivables	(47,370)
(Increase) decrease in deposits and prepaid expenses	(8,661)
Increase (decrease) in accounts payable	(118,864)
Increase (decrease) in accrued expenses and other liabilities	(12,308)
Increase (decrease) in unearned revenue	(4,500)
Increase (decrease) in preschool reserve account	(24,750)
Increase (decrease) in other debt	<u>(7,985)</u>
Total adjustments	<u>(151,756)</u>
Net cash provided (used) by operating activities	(43,937)
Cash Flows from Investing Activities	
(Additions) to construction in progress	\$0
(Purchases) of fixed assets	(52,500)
Net cash provided (used) by investing activities	(52,500)
Cash Flows from Financing Activities	
Increase (decrease) in funds due CDE	(\$7,536)
Increase (repayment) of capital lease obligation	(15,000)
Increase (repayment) of mortgage note	<u>(8,877)</u>
Net cash provided (used) by financing activities	<u>(31,413)</u>
Net Decrease in Cash and Cash Equivalents	(127,850)
Cash and Cash Equivalents at Beginning of Year	<u>535,350</u>
Cash and Cash Equivalents at End of Year	<u>\$407,500</u>

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

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements
June 30, 20Y2**Note 1 Nature of Organization**

Example Entity was incorporated as a not-for-profit corporation in 1998 to establish and maintain child care and development (CD) programs. The organization is publicly and privately funded through agreements with the California Department of Education (CDE), 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, 20Y2.

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 the 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 without donor restrictions as of June 30, 20Y2, except fixed assets purchased with state funds (Note 4) were 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, 20Y2

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, 20Y2, 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 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, 20Y2, 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, 20Y2**

- 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, 20Y2, 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 retains a reversionary interest in certain assets purchased with CD contract funds. The title to such assets vests in Example Entity only for the period during which Example Entity has a contract with the CDE. At June 30, 20Y2, 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, 20Y2

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 20Y8 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, 20Y2 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, 20Y2 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, 20Y2.

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, 20Y2 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 20Y8. The annual fair market rental is \$144,000. The

Illustrative Contractor/Single Audit Report

EXAMPLE ENTITY
Notes to Financial Statements
June 30, 20Y2

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, 20Y2 was \$24,000. The 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:

20Y3	\$24,000
20Y4	24,000
20Y5	24,000
20Y6	24,000
20Y7	<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, 20Y2.

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

20Y3	\$15,000
20Y4	15,000
20Y5	15,000
20Y6	15,000
20Y7-Y12	<u>90,000</u>
Total minimum lease payments	150,000
Less: Amount representing interest	46,973
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, 20Y2

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, 20Y2. The mortgage, with monthly payments of \$8,877, is due June 15, 20Y12. Annual debt service requirements to maturity are as follows:

Year Ending June 30:	<u>Principal</u>	<u>Interest</u>
20Y3	\$55,787	\$50,811
20Y4	59,701	46,762
20Y5	63,889	42,429
20Y6	68,373	37,792
20Y7-Y12	<u>523,610</u>	<u>115,522</u>
	<u>\$771,360</u>	<u>\$293,316</u>
Current portion	\$8,877	
Noncurrent portion	<u>762,483</u>	
	<u>\$771,360</u>	

Note 13 Cost Allocation Plan

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

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 benefitted.

- 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, 20Y2

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 Preschool Reserve Account

Child development contractors are allowed, with prior CDE approval, to maintain a preschool reserve account from earned but unexpended contract funds. 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 program type.

Example Entity maintains a reserve account for California State Preschool Program (CSPP) contracts, and funds are deposited into an interest-bearing account. The preschool reserve account balance at June 30, 20Y2, was \$60,500, which is recorded as an asset in the cash account. Also, upon termination of all CSPP contracts, Example Entity would have to return the reserve funds to CDE, so the preschool reserve account is recorded as a liability (deferred revenue) in the amount of \$60,500.

The preschool 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, 20Y2.

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 the 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 subcontracted a portion of its preschool services for contract CSPPY002 to ABC Company for the fiscal year ended June 30, 20Y2. ABC has a direct contract (CCTRY005) with CDSS under Vendor No. X345. As part of this subcontract, Example Entity paid ABC Company \$340,000 of CSPP contract funds for the operation of the program.

Additionally, ABC Company received from Example Entity \$70,000 under its Child Care Food Program Agreement with CDSS: CNIPS ID # 0406A-CACFP-Y1-NP-CS.

Illustrative Contractor/Single Audit Report**EXAMPLE ENTITY
Notes to Financial Statements
June 30, 20Y2****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, 20Y2

APPENDIX A

EXAMPLE ENTITY
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 20Y2

U.S. Department of Agriculture Grants	Pass Through Organization	Assistance Listing	Grantor's Number	Federal Awards	State Awards	Total Awards	Federal Expenditures	State Expenditures	Pass Through to Subrecipients
Child and Adult Care Food Program	CA Department of Social Services	10.558	0406A-CACFP-Y1-NP-CS	\$110,000	\$0	\$110,000	\$110,000	\$0	\$70,000
Child and Adult Care Food Program	CA Department of Social Services	10.558	0407A-CACFP-Y1-NP-CS	271,600	0	271,600	271,600	0	0
Child and Adult Care Food Program	CA Department of Social Services	10.558	0407J-CACFP-Y1-NP-CS	285,500	0	285,500	285,500	0	0
				<u>\$667,100</u>	<u>\$0</u>	<u>\$667,100</u>	<u>\$667,100</u>	<u>\$0</u>	<u>\$70,000</u>
U.S. Department of Health & Human Services Grants	Pass Through Organization	Assistance Listing	Grantor's Number	Federal Awards	State Awards	Total Awards	Federal Expenditures	State Expenditures	Pass Through to Subrecipients
County Office of Education Head Start	N/A	93.600	C-6789:Y1:Y2	\$4,840,500	\$0	\$4,840,500	\$4,840,500	\$0	\$0
General Center Child Care	CA Department of Social Services	93.575/ 93.596	CCTRY001	960,000	120,000	1,080,000	960,000	120,000	0
				<u>\$5,800,500</u>	<u>\$120,000</u>	<u>\$5,920,500</u>	<u>\$5,800,500</u>	<u>\$120,000</u>	<u>\$0</u>
State Awards	Pass Through Organization	Assistance Listing	Grantor's Number	Federal Awards	State Awards	Total Awards	Federal Expenditures	State Expenditures	Pass Through to Subrecipients
California State Preschool Program	CA Department of Education	N/A	CSPPY002	\$0	\$955,000	\$955,000	\$0	\$955,000	\$340,000
				<u>\$0</u>	<u>\$955,000</u>	<u>\$955,000</u>	<u>\$0</u>	<u>\$955,000</u>	<u>\$340,000</u>
Total Expenditures of Federal and State Awards	Pass Through Organization	Assistance Listing	Grantor's Number	Federal Awards	State Awards	Total Awards	Federal Expenditures	State Expenditures	Pass Through to Subrecipients
Total	N/A	N/A	N/A	<u>\$6,467,600</u>	<u>\$1,075,000</u>	<u>\$7,542,600</u>	<u>\$6,467,600</u>	<u>\$1,075,000</u>	<u>\$410,000</u>

See accompanying auditors' reports and notes to financial statements.

EXAMPLE ENTITY
Notes to Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 20Y2

Note 1 - Basis of presentation

The accompanying Schedule of Expenditures of Federal and State Awards (the "Schedule") includes the federal and state grant activity of Example Entity under programs of the federal and state governments for the year ended June 30, 20Y2. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and with the requirements of the California Department of Education issued *Audit Guide*. Because the schedule presents only a selected portion of the operations of Example Entity, it is not intended to, and does not present, the financial position, changes in net assets or cash flows of Example Entity.

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect cost rate

Example Entity did not elect to use the 10 percent de minimis indirect cost rate for the year ended June 30, 20Y2.

Note 4 – Subrecipients

Example Entity provided funding to the following subrecipients:

- ABC Company:
 - Child and Adult Care Food Program \$70,000
 - California State Preschool Program \$340,000

EXAMPLE ENTITY
Combining Statement of Activities (Continued)
Year Ended June 30, 20Y2

Revenue & Support	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002	Non-CD Programs	Total
Child Care and Development Programs	\$1,080,000	\$1,110,100	\$340,000	\$1,450,100	\$8,431,000	\$10,961,100
Child Care Food Program	146,000	125,600	70,000	195,600	325,500	667,100
In-kind contributions income	24,000	0	0	0	96,000	120,000
Unrestricted contributions and other income	2,500	100,000	0	100,000	259,329	361,829
Transfers from CD reserves	45,000	0	0	0	0	45,000
Family fees – certified children	31,000	0	0	0	111,750	142,750
Family fees – noncertified children	47,752	0	0	0	0	47,752
Interest income	1,500	1,560	0	1,560	10,425	13,485
Total revenue & support	\$1,377,752	\$1,337,260	\$410,000	\$1,747,260	\$9,234,004	\$12,359,016

See accompanying auditors' reports and notes to financial statements.

APPENDIX A

**EXAMPLE ENTITY
Combining Statement of Activities
Year Ended June 30, 20Y2**

Expenses	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002	Non-CD Programs	Total
Salaries	\$715,830	\$575,040	\$217,917	\$792,957	\$3,508,993	\$5,017,780
Payroll taxes & fringe benefits	178,956	140,640	54,478	195,118	835,672	1,209,746
Direct payments to providers	0	0	0	0	2,430,000	2,430,000
Professional services	63,787	9,579	54,556	64,135	782,577	910,499
Travel	6,432	562	0	562	18,066	25,060
Subcontracts	7,638	344,349	4,082	348,431	43,163	399,232
Rents & leases	6,432	20,985	2,487	23,472	5,501	35,405
Building maintenance & renovation	12,145	1,600	1,314	2,914	14,286	29,345
Equipment	3,000	4,150	0	4,150	0	7,150
Food & meals	21,633	14,277	6,350	20,627	224,983	267,243
Supplies	102,591	71,563	31,442	103,005	293,527	499,123
Telephone	5,125	5,432	1,660	7,092	55,339	67,556
Utilities	10,682	10,968	3,346	14,314	36,417	61,413
Insurance	8,478	8,643	2,664	11,307	13,379	33,164
Staff training	0	1,500	0	1,500	20,609	22,109
In-kind space	24,000	0	0	0	96,000	120,000
Depreciation or use allowance	51,202	30,314	0	30,314	16,796	98,312
Start-up	52,200	0	0	0	0	52,200
Other	4,016	2,032	395	2,427	136,045	142,488
Fundraising	0	0	0	0	0	0
General, administrative, and indirect	97,500	90,200	29,309	119,509	637,863	854,872
Total expenses	\$1,371,647	\$1,331,834	\$410,000	\$1,741,834	\$9,169,216	\$12,282,697
Change in net assets	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002	Non-CD Programs	Total
Increase/(decrease) in net assets	\$6,105	\$5,426	\$0	\$5,426	\$64,788	\$76,319

See accompanying auditors' reports and notes to financial statements.

EXAMPLE ENTITY
Schedule of Expenditures by State Categories
Year Ended June 30, 20Y2

Expenditures	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002
Direct payments to providers	\$0	\$0	\$0	\$0
1000 Certified salaries	281,840	199,661	163,905	363,566
2000 Classified salaries	433,990	375,379	54,012	429,391
3000 Employee benefits	178,956	140,640	54,478	195,118
4000 Books and supplies	124,224	85,840	37,792	123,632
5000 Services and other operating expenses	149,235	330,800	70,504	401,304
6100/6200 Other approved capital outlay	0	19,500	0	19,500
6400 New equipment expense	5,500	0	0	
6500 Replacement equipment	0	0	0	0
Depreciation on assets not purchased with public funds	27,911	19,274	0	19,274
Start-up expense (service level exemption)	58,200	0	0	
Budget impasse credit expense (service level exemption)	0	0	0	0
Indirect costs (a)	97,500	90,200	29,309	119,509
Total expenses claimed for reimbursement (b)	\$1,357,356	\$1,261,294	\$410,000	\$1,671,294
Supplemental Expenditures	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002
Total supplemental expenses	2,500	100,000	0	100,000
Total expenditures	\$1,359,856	\$1,361,294	\$410,000	\$1,771,294

Notes:

- (a) A written indirect cost allocation plan for the current fiscal year, approved by the Board of Directors, is on file in the main accounting office of Example Entity.
- (b) Any food expenses have been allocated to the appropriate contracts.

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

See accompanying auditors' reports and notes to financial statements.

APPENDIX A

**EXAMPLE ENTITY
Reconciliation of CD and GAAP Expense Reporting
Year Ended June 30, 20Y2**

CD Expenses	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002
Schedule of Expenditures by State Categories	\$1,359,856	\$1,361,294	\$410,000	\$1,771,294
Adjustments	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002
Depreciation on assets purchased with public funds ¹	\$23,291	\$11,040	\$0	\$11,040
Capitalized renovation & repair expensed on AUD forms	(6,000)	(19,500)	0	(19,500)
Capitalized renovation & repair expensed as supplemental on AUD forms	0	(21,000)	0	(21,000)
Capitalized equipment expensed on AUD forms	(5,500)	0	0	0
Total adjustments	\$11,791	(\$29,460)	\$0	(\$29,460)
Expenses per GAAP	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002
Combining Statement of Activities	\$1,371,647	\$1,331,834	\$410,000	\$1,741,834

¹The amounts shown here were not reported on the Audited Attendance and Fiscal Reports (AUD forms).
[Note to auditor: See sections 330.C and 335.E of the *Audit Guide*.]

See accompanying auditors' reports and notes to financial statements.

EXAMPLE ENTITY
Schedule of Claimed Equipment Expenditures
Year Ended June 30, 20Y2

Capitalized Equipment Expensed on the AUD with Prior Written Approval	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002	Non-CD Programs	Total
Computer system	\$5,500	\$0	\$0	\$0	\$0	\$5,500
Subtotal	5,500	0	0	0	0	5,500
Capitalized Equipment Expensed on the AUD without Prior Written Approval	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002	Non-CD Programs	Total
None	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	0	0	0	0	0	0
Total	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002	Non-CD Programs	Total
Capitalized equipment	\$5,500	\$0	\$0	\$0	\$0	\$5,500

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

See accompanying auditors' reports and notes to financial statements.

APPENDIX A

EXAMPLE ENTITY
Schedule of Claimed Expenditures for Renovations and Repairs
Year Ended June 30, 20Y2

Capitalized R&R Project Under \$10,000	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002	Non-CD Programs	Total
Roof Repairs reported as start-up	\$6,000	\$0	\$0	\$0	\$0	\$6,000
Remodeling Cabinets	0	5,500	0	5,500	0	5,500
Subtotal	6,000	5,500	0	5,500	0	11,500
Capitalized R&R Project of \$10,000 or More with Prior Written Approval	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002	Non-CD Programs	Total
Renovate Kitchen	\$0	\$11,500	\$0	\$11,500	\$0	\$11,500
Carpet	0	2,500	0	2,500	21,000	23,500
Subtotal	0	14,000	0	14,000	21,000	35,000
Capitalized R&R Project of \$10,000 or More without Prior Written Approval	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002	Non-CD Programs	Total
None	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal	0	0	0	0	0	0
Total	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002	Non-CD Programs	Total
Capitalized R&R projects	\$6,000	\$19,500	\$0	\$19,500	\$21,000	\$46,500

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

See accompanying auditors' reports and notes to financial statements.

APPENDIX A

EXAMPLE ENTITY
Schedule of Claimed Administrative Costs
Year Ended June 30, 20Y2

Administrative Costs	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002
Direct payments to providers	\$0	\$0	\$0	\$0
1000 Certified salaries	0	0	0	0
2000 Classified salaries	14,855	15,795	16,209	32,004
3000 Employee benefits	8,850	8,899	3,113	12,012
4000 Books and supplies	14,599	12,292	5,400	17,692
5000 Services and other operating expenses	12,740	9,040	6,128	15,168
6100/6200 Other approved capital outlay	0	0	0	0
6400 New equipment expense	0	0	0	0
6500 Replacement equipment	0	0	0	0
Depreciation on assets not purchased with public funds	27,911	19,274	0	19,274
Start-up expense (service level exemption)	0	0	0	0
Budget impasse credit expense (service level exemption)	0	0	0	0
Indirect costs	97,500	90,200	29,309	119,509
Total administrative costs claimed for reimbursement	\$176,455	\$155,500	\$60,159	\$215,659

See accompanying auditors' reports and notes to financial statements.

APPENDIX A

**EXAMPLE ENTITY
Schedule of Claimed Start-Up Expenses
Year Ended June 30, 20Y2**

Claimed Start-Up Expenses	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002
Direct payments to providers	\$0	\$0	\$0	\$0
1000 Certified salaries	22,250	0	0	0
2000 Classified salaries	11,975	0	0	0
3000 Employee benefits	6,556	0	0	0
4000 Books and supplies	5,724	0	0	0
5000 Services and other operating expenses	5,695	0	0	0
6100/6200 Other approved capital outlay	6,000	0	0	0
6400 New equipment expense	0	0	0	0
6500 Replacement equipment	0	0	0	0
Depreciation on assets not purchased with public funds	0	0	0	0
Total start-up expenses	\$58,200	\$0	\$0	\$0

See accompanying auditors' reports and notes to financial statements.

APPENDIX A

EXAMPLE ENTITY
Schedule of Claimed Budget Impasse Credit Expenses
Year Ended June 30, 20Y2

Claimed Budget Impasse Credit Expenses	CCTRY001	CSPPY002	Subcontract CSPPY002	Total CSPPY002
Direct payments to providers	\$0	\$0	\$0	\$0
1000 Certified salaries	0	0	0	0
2000 Classified salaries	0	0	0	0
3000 Employee benefits	0	0	0	0
4000 Books and supplies	0	0	0	0
5000 Services and other operating expenses	0	0	0	0
6100/6200 Other approved capital outlay	0	0	0	0
6400 New equipment expense	0	0	0	0
6500 Replacement equipment	0	0	0	0
Depreciation on assets not purchased with public funds	0	0	0	0
Total Budget Impasse Credit Expenses	\$0	\$0	\$0	\$0

See accompanying auditors' reports and notes to financial statements.

EXAMPLE ENTITY**Notes to the Child Care and Development Program Supplemental Information
Year Ended June 30, 20Y2**

In accordance with the applicable requirements from the Contract 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 childcare facility was claimed as a reimbursable expense for the year ended June 30, 20Y2. No interest expense relating to the line of credit (Note 8) was claimed to a child development contract for the year ended June 30, 20Y2.
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, 20Y2, 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, 20Y2.

EXAMPLE ENTITY

Audited Attendance and Fiscal Reports

For the Year Ended June 30, 20Y2

EXAMPLE ENTITY

Other Required Information

For the Year Ended June 30, 20Y2

[Auditor's Letterhead]

**INDEPENDENT AUDITORS' 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, 20Y2, 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 20Y2-1, 20Y2-2, 20Y2-3, and 20Y2-4).

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 20Y2-1, 20Y2-2, 20Y2-3, and 20Y2-4.

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]
**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE AND REPORT ON SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS**

Board of Directors
Example Entity

Report on Compliance for Each Major Program

Opinion on Each Major Federal Program

We have audited Example Entity's compliance with the types of compliance requirements identified as subject to audit 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, 20Y2. 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*.

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, 20Y2.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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. Our responsibilities under those standards and the *Uniform Grants Guidance* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Example Entity and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Example Entity's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Example Entity's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Example Entity's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *Uniform Grants Guidance* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Example Entity's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *Uniform Grants Guidance*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Example Entity's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Example Entity's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *Uniform Grants Guidance*, but not for the purpose of expressing an opinion on the effectiveness of Example Entity's internal control over compliance. Accordingly, no such opinion is expressed.

Report on 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 Auditor's Responsibilities for the Audit of Compliance 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 20Y2-1, 20Y2-2, 20Y23, and 20Y2-4 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.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, 20Y2, 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

APPENDIX A

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

Schedule of Findings and Questioned Costs

Fiscal Year Ended June 30, 20Y2

Section I – Summary of Auditor’s Results

<i>Financial Statements</i>		
Type of auditor’s report issued:	<i>Unqualified</i>	
Internal control over financial reporting:	YES:	NO:
• Material weakness identified?		X
• Significant deficiency identified that is not considered to be a		None
Noncompliance material to financial statements noted?		X

<i>Federal Awards</i>		
Internal control over major programs:	YES:	NO:
• Material weakness identified?		X
• Significant deficiency identified that is not considered to be a		
Type of auditor’s report issued on compliance for major programs:	<i>Unqualified</i>	
Any audit findings disclosed that are required to be reported in		

Identification of major programs:		
<i>CFDA Number:</i>	<i>Name of Federal Program or Cluster:</i>	
10.558	USDA – Child and Adult Care Food Program	
93.575/93.596	HHS – Child Care and Development Fund	
93.600	HHS – Head Start	
Dollar threshold used to distinguish between type A and type B programs:		\$750,000
	YES:	NO:
Auditee qualified as a low-risk auditee?	X	

Section II – Financial Statement Findings
--

Current year financial statement findings:

None

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 20Y2

<p>Section III – Findings and Questioned Costs for Federal and State Awards – Current Year</p>

20Y2-1: Allowable Start-Up Expenses of \$52,200 Not Claimed

1. Program Information: AL No. 93.575/93.596, HHS – Child Care and Development Fund; General Center Contract CCTRY001.
2. Criteria: The contract provided a service level exemption of \$52,200 prior to full enrollment, as governed by Section V.D of the Contract 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, but failed to report on the appropriate line item of the *Attendance and Fiscal Report* (EENFS 9500) for the year ended June 30, 20Y2.
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 were 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 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, 20Y2

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

20Y2-2: Payroll Costs of \$29,500 Not Supported by Required Time Sheets

1. Program Information: CDE State Preschool Contract CSPPY002 (no federal component).
2. Criteria: Section VI.F of the Contract 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 CSPPY002) 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 CSPPY002 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 employees 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, 20Y2

**Section III – Findings and Questioned Costs for
Federal and State Awards – Current Year (Continued)****20Y2-3: Operating Expenses of \$15,049 Not Adequately Supported**

1. Program Information: AL No. 93.575/93.596, HHS – Child Care and Development Fund; General Center Contract CCTRY001
2. Criteria: Section VI.F of the Contract 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, 20Y2

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

**20Y2-4: Non-reimbursable Entertainment Expenses of \$2,500 Claimed
in Error**

1. Program Information: AL No. 93.575/93.596, HHS – Child Care and Development Fund; General Center Contract CCTRY001.
2. Criteria: Section V.G of the Contract Terms and Conditions states that the costs of amusement or entertainment are not reimbursable under the contract.
3. Condition: The contractor claimed \$2,500 for entertainment costs of 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 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 Terms and Conditions.

Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 20Y2

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

There was one finding in the prior year:

20Y1-1: Depreciation Claimed on Property Purchased with CD Funds

1. Program Information: AL No. 93.575/93.596, HHS – Child Care and Development Fund; General Center Contract CCTR90X1.
2. Criteria: Section III.D of the Contract 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 expenses.
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, 20Y2, 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 (20Y2-1).
2. Payroll costs of \$29,500 were not supported by required time sheets because of inadequate design of controls to monitor staff (20Y2-2).
3. Operating expenses of \$15,049 were not adequately supported due to the faulty design of purchase procedures (20Y2-3).
4. Non-reimbursable entertainment expenses of \$2,500 were claimed in error because staff lacked knowledge of program requirements (20Y2-4).

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, 20Y2, 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 CCTRY001 and attendance was overstated on Contract CSPPY002.

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
SCHOOL NUTRITION PROGRAM
SPONSOR OF SCHOOL FOOD AUTHORITY
XYZ SCHOOL NUTRITION, INC.
FISCAL YEAR ENDED JUNE 30, 20Y2

**XYZ School Nutrition, Inc.
Fiscal Year Ended June 30, 20Y2**

Illustrative Schedules

Sponsor of School Food Authority

Table of Contents

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<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 Eligibility</u>	C

XYZ SCHOOL NUTRITION, INC.

SUMMARY OF CLAIM

Exhibit A

Agreement No: xxxxx-SN-xx-xx

FOR THE PERIOD JULY 1, 20Y1 TO JUNE 30, 20Y2

School Nutrition Program	Allowed	Paid	Variance
Breakfast Program	\$678,456	\$819,376	(\$140,920)
Lunch Program	1,621,610	1,816,539	(194,929)
School Nutrition Program: Amount Due to (from) Sponsor			<u>(\$335,849)</u>
State Meal Compensation	Allowed	Paid	Variance
Breakfast Program	\$394,244	\$467,990	(\$73,746)
Lunch Program	581,290	651,234	(69,944)
State Meal Compensation: Amount Due to (from) Sponsor			<u>(\$143,690)</u>
Total Program Reimbursement (State and Federal) Underpayment (Overpayment)			<u>(\$479,539)</u>

APPENDIX B

**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, 20Y1 TO JUNE 30, 20Y2

Breakfast Program

Federal Reimbursement	Reported	Meal Adjustments	Allowed	Rates	Total
Paid	51,700	(6,360)	45,340	0.5000	\$22,670
Reduced Price	39,340	(5,520)	33,820	1.9600	66,287
Free	317,000	(56,160)	260,840	2.2600	589,498
Total	408,040	(68,040)	340,000		\$678,455

State Reimbursement	Reported	Meal Adjustments	Allowed	Rates	Total
Paid	51,700	(6,360)	45,340	2.6550	\$120,378
Reduced Price	39,340	(5,520)	33,820	1.1950	40,415
Free	317,000	(56,160)	260,840	0.8950	233,452
Total	408,040	(68,040)	340,000		\$394,245

Lunch Program

Federal Reimbursement	Reported	Meal Adjustments	Allowed	Rates	Total
Paid	59,600	(6,410)	53,190	0.7900	\$42,020
Reduced Price	44,900	(4,815)	40,085	3.9500	158,336
Free	366,000	(39,275)	326,725	4.3500	1,421,254
Total	470,500	(50,500)	420,000		\$1,621,610

State Reimbursement	Reported	Meal Adjustments	Allowed	Rates	Total
Paid	59,600	(6,410)	53,190	4.4550	\$236,961
Reduced Price	44,900	(4,815)	40,085	1.2950	51,910
Free	366,000	(39,275)	326,725	0.8950	292,419
Total	470,500	(50,500)	420,000		\$581,290

XYZ SCHOOL NUTRITION, INC.
SCHEDULE OF REPORTED, ADJUSTED, AND ALLOWED ELIGIBILITY
Exhibit C

Agreement No: xxxxx-SN-xx-xx
 FOR THE PERIOD JULY 1, 20Y1 TO JUNE 30, 20Y2

Total Enrolled	July	August	September	October	November	December	January	February	March	April	May	June
Reported	1,475	1,597	1,657	1,657	1,637	1,697	1,825	1,825	1,825	1,855	1,917	1,927
Adjusted	0	0	0	0	0	(250)	0	0	0	0	(317)	0
Allowed	1,475	1,597	1,657	1,657	1,637	1,447	1,825	1,825	1,825	1,855	1,600	1,927

Eligibility Categories

Free	July	August	September	October	November	December	January	February	March	April	May	June
Reported	1,163	1,243	1,296	1,296	1,288	1,347	1,415	1,415	1,415	1,437	1,491	1,499
Adjusted	0	0	0	0	0	(216)	0	0	0	0	(252)	0
Allowed	1,163	1,243	1,296	1,296	1,288	1,131	1,415	1,415	1,415	1,437	1,239	1,499

Reduced	July	August	September	October	November	December	January	February	March	April	May	June
Reported	156	171	171	171	161	162	181	181	181	185	193	195
Adjusted	0	0	0	0	0	(13)	0	0	0	0	(33)	0
Allowed	156	171	171	171	161	149	181	181	181	185	160	195

Base	July	August	September	October	November	December	January	February	March	April	May	June
Reported	152	183	190	190	188	188	229	229	229	233	233	233
Adjusted	0	0	0	0	0	(21)	0	0	0	0	(32)	0
Allowed	152	183	190	190	188	167	229	229	229	233	201	233