

LOCAL AUDITS UPDATE

PURPOSE OF REPORT

To inform the State Allocation Board (Board) of local audits certified by the State Controller's Office (SCO) in the 2020 calendar year.

DESCRIPTION

An audit of a local educational agency's expenditures by an independent auditor is required within one year of a project's fund release. All local audits are required to be submitted, reviewed and certified by the State Controller's Office (SCO). Once certified the copy of the local audit report will be forwarded to OPSC. Staff is informing the Board of how many audits have been certified by SCO for the 2020 calendar year; and disclose audit findings reported.

AUTHORITY

Education Code (EC) Section 41024 states in part:

(a)(1)(5) Any project identified on a local educational agency's detailed list of expenditures pursuant to paragraph (1) that is reported complete during the 2017-18 fiscal year shall be audited as part of that local educational agency's audit for the 2018-19 fiscal year. All other completed projects shall be audited as part of the local educational agency's audit for the fiscal year in which the project is reported complete.

(c)(3) The auditor conducting the audit pursuant to this section shall notify the department of any audit exceptions identified pursuant to this section and any amounts or adjustments identified pursuant to subparagraph (C) of paragraph (1) consistent with the notification requirements established in subdivision (l) of Section 41020.

The full text of EC Section 41024 is included in Attachment

BACKGROUND

Current statute requires, commencing April 1, 2017, a local educational agency that receives any funds pursuant to the Leroy F. Greene School Facilities Act of 1998 (Chapter 12.5 (commencing with Section 17070.10) of Part 10 of Division 1 of Title 1) shall annually report a detailed list of all expenditures of state funds, including interest, and of the local educational agency's matching funds for completed projects until all state funds, including interest, all of the local educational agency's matching funds, and savings achieved, including interest, pursuant to Section 17070.63, are expended in accordance with the requirements of the Leroy F. Greene School Facilities Act of 1998, associated regulations, and any accompanying grant agreement signed by a local educational agency.

BACKGROUND (cont.)

In addition, Education Code Section 41024 requires that all School Facility Program (SFP) projects funded after April 1, 2017 have an audit conducted by a certified public accountant. The audit shall be completed within one year of project completion. The completed audit reports are submitted to the SCO for review and certification. Staff analysis below summarizes information related to certified audit reports received for the 2020 calendar year and the dollar amount associated with any audit findings.

STAFF ANALYSIS

Ninety-one audit reports have been received by SCO in the 2020 calendar year, fifty-five reports have been certified (see Attachment B for listing of fifty-five reports certified in 2020) and thirty-three reports have been rejected. The CPA firms has been notified about the necessary revisions/corrections that must be made for the report to be certified. Audit reports were rejected by SCO since they did not meet the reporting standards contained in the Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting, Appendix B (K-12 Audit Guide). Nine reports are currently in the audit review process. Five of the certified reports disclosed audit findings, with \$8,342 of ineligible costs to be returned to the State and no site grant adjustments necessary. Staff also included 14 reports certified in 2019 in Attachment B that preceded the certified reports in 2020 and they are listed in that order.

We believe the following factors have contributed to successful audit processes and audit reports which contained minimal audit findings:

- 1) The required grant agreement provides detailed and transparent guidance for the reporting of eligible expenditures, including appendices detailing specific types of eligible and ineligible expenditures.
- 2) OPSC staff participation in the K-12 Audit Guide development committee and collaboration with representatives from the SCO, California Department of Education, Education Audit Appeals Panel, and CPA firms in developing required audit procedures to be published in the K-12 Audit Guide
- 3) As subject matter experts, OPSC staff have provided continual technical assistance and answers to inquiries regarding the audits to CPAs, local educational agencies, and consultants through emails and phone calls throughout 2020.
- 4) Outreach and training provided by OPSC staff. There were initially five training sessions/workshops around the State, including one webcast, for CPAs, local educational agencies, and consultants regarding the audit instructions and procedures. There has been several follow up presentations that have included the California CPA Foundation, the Small School Districts Association (SSDA), and the Coalition for Adequate School Housing (CASH). These workshops have provided education, training, and forums to answer questions and provide guidance related to the audit process.

RECOMMENDATION

Acknowledge the report.

This Item was acknowledged by the State Allocation Board on January 27, 2021.

ATTACHMENT A

AUTHORITY

Education Code Section 41024 states:

(a) (1) Commencing April 1, 2017, a local educational agency that receives any funds pursuant to the Leroy F. Greene School Facilities Act of 1998 (Chapter 12.5 (commencing with Section 17070.10) of Part 10 of Division 1 of Title 1) shall annually report a detailed list of all expenditures of state funds, including interest, and of the local educational agency's matching funds for completed projects until all state funds, including interest, all of the local educational agency's matching funds, and savings achieved, including interest, pursuant to Section 17070.63, are expended in accordance with the requirements of the Leroy F. Greene School Facilities Act of 1998, associated regulations, and any accompanying grant agreement signed by a local educational agency. A local educational agency's detailed list of expenditures shall identify expenditures on a project-by-project basis, reflect completed projects that were reimbursed within that fiscal year, and shall clearly indicate the list of projects that have been completed.

(2) For purposes of this section, the determination that a project is complete shall be in accordance with the regulations adopted pursuant to the Leroy F. Greene School Facilities Act of 1998 (Chapter 12.5 (commencing with Section 17070.10) of Part 10 of Division 1 of Title 1).

(3) The total amount of interest earned on the state funds shall be reported on the final expenditure report upon completion of a project. For the purposes of determining the total amount of interest earned on the state funds, interest shall be considered to accrue from the time state funds are deposited in the local educational agency's account until the time the local educational agency submits the final expenditure report to the Office of Public School Construction.

(4) Commencing April 1, 2017, a local educational agency participating in the school facilities program shall ensure that it retains all financial accounts, documents, and records necessary for an audit of completed projects pursuant to Section 16026 of Title 5 of the California Code of Regulations. For purposes of this paragraph and in compliance with any applicable state and federal standards, a local educational agency may maintain records electronically.

(5) Any project identified on a local educational agency's detailed list of expenditures pursuant to paragraph (1) that is reported complete during the 2017–18 fiscal year shall be audited in accordance with the audit guide required by Section 14502.1 for the 2018–19 fiscal year. All other completed projects shall be audited in accordance with the audit guide required by Section 14502.1 for the fiscal year in which the project is reported complete.

(6) The audit described in this section shall be completed within one year of project completion as determined by Section 1859.104 of Title 2 of the California Code of Regulations.

(b) (1) Commencing with audits of the 2018–19 fiscal year, the Controller shall include instructions in the audit guide required by Section 14502.1 that include, but are not necessarily limited to, procedures for determining all of the following:

(A) Whether funds identified by a local educational agency on its detailed list of expenditures pursuant to paragraph (1) of subdivision (a) have been expended in accordance with the requirements of the Leroy F. Greene School Facilities Act of 1998 (Chapter 12.5 (commencing with Section 17070.10) of Part 10 of Division 1 of Title 1), associated regulations, and any accompanying grant agreement signed by a local educational agency. Any funds not expended in accordance with these requirements shall be disallowed and considered an audit finding.

(B) That savings achieved, including interest, pursuant to Section 17070.63, are used for other high priority capital outlay purposes identified by the local educational agency or returned to the Office of Public School Construction, and are used in accordance with the requirements of the

Leroy F. Greene School Facilities Act of 1998 (Chapter 12.5 (commencing with Section 17070.10) of Part 10 of Division 1 of Title 1), associated regulations, and as specified in any accompanying grant agreement.

(C) Adjustments to the grant amounts received by a local educational agency for site acquisition costs based upon the local educational agency's final approved expenditures as required pursuant to Sections 1859.105 and 1859.106 of Title 2 of the California Code of Regulations.

(D) If there are any unspent funds associated with the completion of a Charter School Facilities Program project that must be returned to the Office of Public School Construction as required pursuant to Section 1859.169.1 of Title 2 of the California Code of Regulations.

(E) If there are any unspent funds associated with the completion of a Career Technical Education Facilities Program project that must be returned to the Office of Public School Construction as required pursuant to Section 1859.199 of Title 2 of the California Code of Regulations.

(F) If there are any unspent funds associated with the completion of a project, where the local educational agency received hardship funding as described in Sections 1859.81, 1859.81.1, 1859.81.2, and 1859.81.3 of Title 2 of the California Code of Regulations, that must either be returned to the Office of Public School Construction or expended consistent with the requirements pursuant to Section 1859.103 of Title 2 of the California Code of Regulations.

(G) Adjustments to the grant amounts received by a local educational agency associated with the substantial progress requirements reflected in the program reporting requirements pursuant to Section 1859.104 of Title 2 of the California Code of Regulations.

(2) Any amounts or adjustments identified pursuant to subparagraphs (C) to (G), inclusive, of paragraph (1) shall be identified within a local educational agency's audit, but shall not be considered an audit finding for purposes of this section.

(c) (1) The auditor conducting the audit pursuant to this section shall file the audit with the Controller within 60 days of the completion of the audit. The Controller shall be allowed access to audit working papers. Adjustments pursuant to paragraph (2) of subdivision (b) shall not be appealable to the Education Audit Appeals Panel pursuant to this section.

(2) Within 60 days of the receipt of the certified audit, and after determining that the audit conforms with the reporting standards contained in the audit guide, the Controller shall do both of the following:

(A) Provide the department a copy of the certified audit.

(B) Notify the Office of Public School Construction of any audit findings pursuant to this section and any amounts or adjustments identified pursuant to clause (iii) and provide the Office of Public School Construction with a copy of the certified audit identifying the amounts to be adjusted if, as a result of the audit conducted in accordance with the requirements of subdivisions (a) and (b), the auditor determines any of the following:

(i) A local educational agency has unspent funds for the project not identified as savings pursuant to Section 17070.63 that shall be returned pursuant to subparagraphs (C) to (G), inclusive, of paragraph (1) of subdivision (b), and any accompanying grant agreement signed by a local educational agency.

(ii) A local educational agency is subject to an increase or decrease in funds provided pursuant to subparagraphs (C) to (G), inclusive, of paragraph (1) of subdivision (b), and any accompanying grant agreement signed by a local educational agency.

(iii) A local educational agency did not expend funds in accordance with the Leroy F. Greene School Facilities Act of 1998 (Chapter 12.5 (commencing with Section 17070.10) of Part 10 of Division 1 of Title 1) and any accompanying grant agreement signed by a local educational agency.

(3) Upon receipt of the certified audit, the Office of Public School Construction shall present any grant adjustments required pursuant to clauses (i) and (ii) of subparagraph (B) of paragraph (2)

for a specified project to the State Allocation Board for an adjustment to the project apportionment. Funds identified for purposes of clauses (i) and (ii) of subparagraph (B) of paragraph (2) shall be apportioned from, or returned to, the appropriate funds, as established in the State Treasury pursuant to Section 17070.40 or 17070.41, as applicable. If a school district is required to return unspent funds, the fund source for returned funds shall be the county school facilities fund established pursuant to subdivision (a) of Section 17070.43.

(4) A local educational agency may appeal the audit finding pursuant to the timelines and process established in subdivision (d) of Section 41344. The procedures set out in subdivision (d) of Section 41344.1 do not apply to the audit required by this section.

(5) The Office of Public School Construction shall ensure that the local educational agency has corrected the audit finding by implementing a required penalty payment of funds equal to the amount of funds disallowed in the audit finding pursuant to the process specified in subdivision (d).

(d)(1) If, as the result of the audit, a local educational agency is required to pay funds pursuant to clause (iii) of subparagraph (B) of paragraph (2) of subdivision (c), the Office of Public School Construction shall recover the funds from the local educational agency.

(2) If the local educational agency has submitted an appeal to the Education Audit Appeals Panel pursuant to subdivision (d) of Section 41344, the Office of Public School Construction shall not recover funds until following the determination of the appeal.

(3) A local educational agency may use any local fund source to pay the disallowed amount pursuant to clause (iii) of subparagraph (B) of paragraph (2) of subdivision (c) so long as there is no legal prohibition regarding the use of those funds for this purpose.

(4) A local educational agency may request from the Office of Public School Construction a repayment plan within 90 days of receiving the final audit report, or within 30 days of withdrawing or receiving a final determination regarding an appeal pursuant to subdivision (d) of Section 41344 and subdivision (b) of Section 41344.1, as applicable. The Office of Public School Construction and the Director of Finance, or their designees, jointly shall establish a plan for payment. The payment plan shall be established in accordance with the following:

(A) If the executive officer of the Office of Public School Construction and the Director of Finance, in consultation with the department, concur that repayment of the disallowed amount in the current fiscal year would constitute a severe financial hardship for the local educational agency, they may jointly approve a plan of equal annual payments over a period of up to eight years. The plan may include interest on each year's outstanding balance at the rate earned on the state's Pooled Money Investment Account during that year. The executive officer of the Office of Public School Construction and the Director of Finance jointly shall establish this plan. At the time the local educational agency is notified, the Controller also shall be notified of the plan by the executive officer of the Office of Public School Construction. The Controller shall withhold the annual amount established pursuant to the plan from the local educational agency's principal apportionment or Education Protection Account payments.

(B) Notwithstanding subparagraph (A), if the executive officer of the Office of Public School Construction and the Director of Finance, in consultation with the department, concur that repayment of the disallowed amount over an eight-year period would require the local educational agency to request an emergency apportionment pursuant to Article 2 (commencing with Section 41320) of, and Article 2.5 (commencing with Section 41325) of, Chapter 3, they may approve a plan of equal annual payments over a period of up to 20 years. The plan shall include interest on each year's outstanding balance at the rate earned on the state's Pooled Money Investment Account during that year. The Controller shall withhold the annual amount established pursuant to the plan from the local educational agency's principal apportionment or Education Protection Account payments.

(C) If a payment plan submitted pursuant to this section is not approved by the executive officer of the Office of Public School Construction and the Director of Finance, in consultation with the department, or is not requested by the local educational agency, the executive officer of the Office of Public School Construction shall invoice the local educational agency for the entire disallowed amount. If the local educational agency does not remit payment for the invoice within 120 days of issuance, the executive officer of the Office of Public School Construction shall request that the Controller withhold the entire disallowed amount from the local educational agency's principal apportionment or Education Protection Account payments.

(D) (i) Funds recovered by the executive officer of the Office of Public School Construction or withheld by the Controller pursuant to this section shall be deposited into the appropriate state school facilities fund, as established in the State Treasury pursuant to Section 17070.40 or 17070.41, as applicable.

(ii) Funds remitted to the Office of Public School Construction by a local educational agency from local fund sources, as authorized by paragraph (3), shall be deposited into the appropriate state school facilities fund, as established in the State Treasury pursuant to Section 17070.40 or 17070.41, as applicable.

(e) As used in this section, "audit or review" and "local educational agency" shall have the same meaning as the terms are defined in paragraphs (1) and (2) of subdivision (e) of Section 41344.

(f) The State Allocation Board shall not waive all or any part of this section, any grant agreement or provisions of a grant agreement signed by a local educational agency that receives any funds pursuant to the Leroy F. Greene School Facilities Act of 1998 (Chapter 12.5 (commencing with Section 17070.10) of Part 10 of Division 1 of Title 1), or any regulation adopted that implements a provision of this section.

(g) In any appeal filed pursuant to Section 41344 and this section, the Office of Public School Construction, the Department of Finance, and the department may timely move to intervene as a party.

(h) If the Office of Public School Construction chooses not to intervene in an appeal, the administrative law judge conducting the hearing, or the Education Audit Appeals Panel, may request that the Office of Public School Construction issue and file in the appeal an objective interpretation of any applicable law, regulation, or term of the grant agreement within 30 days of the request or such longer period as the administrative law judge or the Education Audit Appeals Panel deems reasonable. The Office of Public School Construction's filing shall not argue or seek to resolve issues of fact, but may state how a particular law, regulation, or grant agreement term applies to competing factual contentions. The agent of the Office of Public School Construction shall be precluded from acting as a party once a request pursuant to this subdivision is made.

(i) Notwithstanding subdivision (a), this section shall not apply to any school facilities project that was apportioned before July 1, 2017.

**STATE CONTROLLER'S OFFICE
SCHOOL FACILITY PROGRAM
STATUS OF BOND AUDIT REPORTS
As of: December 24 2020**

Attachment B - SCO Status of Review Report

No.	School District	School Site	Project Number	Type of Audit	Project Type	SCO Review Status - Certified	Certification Letter Sent Date
1	Chula Vista Elementary School District	Otay Village #11	50/68023-01-001	Closeout	New Construction	√	2019
2	Cajon Valley Union School District	Vista Grande Elementary	57/67991-00-009	Closeout	Modernization	√	2019
3	Cajon Valley Union School District	Rancho San Diego Elementary	57/67991-00-010	Closeout	Modernization	√	2019
4	Gilroy Unified School District	Rucker Elementary	57/69484-00-008	Closeout	Modernization	√	2019
5	Alhambra Unified School District	Repetto Elementary School	57/75713-00-026	Closeout	Modernization	√	2019
6	Alhambra Unified School District	Repetto Elementary School	57/75713-00-026	Savings	Modernization	√	2019
7	Alhambra Unified School District	Granada Elementary School	57/75713-00-027	Closeout	Modernization	√	2019
8	Buena Park School District	Gordon Beatty Elementary School	58/66456-00-003	Closeout	Rehabilitation	√	2019
9	Buena Park School District	Gordon Beatty Elementary School	58/66456-00-004	Closeout	Rehabilitation	√	2019
10	San Marcos Unified School District	San Elijo Elementary School	50/73791-00-013	Closeout	New Construction	√	2019
11	Rincon Valley Union School District	Whited Elementary School	57/70896-00-008	Closeout	Modernization	√	2019
12	Mendocino COE	Juvenile Hall	57/10231-00-001	Closeout	Modernization	√	2019
13	Cypress School District	Arnold Elementary	57/66480-00-005	Closeout	Modernization	√	2019
14	Washington Unified School District	Washington High	57/76778-00-001	Closeout	Modernization	√	2019
15	Savanna School District	Reid (Twila) Elementary	57/66696-00-003	Closeout	Modernization	√	2020
16	Savanna School District	Holder Elementary	57/66696-00-004	Closeout	Modernization	√	2020
17	Sequoia Union High School District	Sequoia High	50/69062-01-003	Closeout	New Construction	√	2020
18	Cypress School District	Steve Luther Elementary	57/66480-00-004	Closeout	Modernization	√	2020
19	Bakersfield City School District	Dr. Douglas K. Fletcher Elementary	50/63321-00-027	Closeout	New Construction	√	2020
20	Lammersville Unified	Altamont Elementary School	50/76760-00-006	Closeout	New Construction	√	2020
21	Culver City Unified	Culver City High School	57/64444-00-010	Closeout	Modernization	√	2020
22	Culver City Unified	Culver City Middle School	57/64444-00-009	Closeout	Modernization	√	2020
23	Newport-Mesa Unified	Costa Mesa High School	50/66597-00-015	Closeout	New Construction	√	2020
24	Newport-Mesa Unified	Costa Mesa High School	50/66597-00-016	Closeout	New Construction	√	2020
25	Newport-Mesa Unified	Corona Del Mar High School	50/66597-00-017	Closeout	New Construction	√	2020
26	Newport-Mesa Unified	Corona Del Mar High School	50/66597-00-018	Closeout	New Construction	√	2020
27	Newport-Mesa Unified	Estancia High School	57/66597-00-031	Closeout	Modernization	√	2020
28	Newport-Mesa Unified	Costa Mesa High School	57/66597-00-032	Closeout	Modernization	√	2020
29	Newport-Mesa Unified	Corona Del Mar High School	57/66597-00-033	Closeout	Modernization	√	2020
30	Martinez Unified School District	Alhambra High School	57/61739-00-007	Closeout	Modernization	√	2020
31	Fresno Unified School District	Sequoia Middle School	57/62166-00-141	Closeout	Modernization	√	2020
32	East Side Union High School District	Andrew Hill High	57/69427-00-034	Closeout	Modernization	√	2020
33	East Side Union High School District	Calero High	57/69427-00-033	Closeout	Modernization	√	2020
34	East Side Union High School District	Silver Creek High	57/69427-00-035	Closeout	Modernization	√	2020
35	Tustin Unified School District	Heritage School	50/73643-00-019	Closeout	New Construction	√	2020
36	Fresno Unified School District	Herbert Hoover High School	57/62166-00-137	Closeout	Modernization	√	2020
37	Fresno Unified School District	McLane High School	57/62166-00-140	Closeout	Modernization	√	2020
38	Fresno Unified School District	Fresno High School	50/62166-00-026	Closeout	New Construction	√	2020
39	Fresno Unified School District	Hamilton Elementary	57/62166-00-138	Closeout	Modernization	√	2020
40	Wright Elementary School District	Wright Charter School	57/71035-00-002	Closeout	Modernization	√	2020
41	Antioch Unified School District	Antioch Middle School	57/61648-00-011	Closeout	Modernization	√	2020
42	Fresno Unified School District	Design Science Early College High School	57/62166-00-139	Closeout	Modernization	√	2020
43	Fresno Unified School District	Design Science Early College High School	50/62166-00-025	Closeout	New Construction	√	2020
44	Shasta Union High School District	University Preparatory School	58/70136-00-001	Closeout	Rehabilitation	√	2020
45	Placentia-Yorba Linda Unified School District	Valencia High School	57/66647-00-034	Closeout	Modernization	√	2020
46	Mill Valley School District	Strawberry Point School	57/65391-00-007	Closeout	Modernization	√	2020
47	Colton Joint Unified	Bloomington High School	58/67686-00-001	Closeout	Rehabilitation	√	2020
48	Escalon Unified School District	Escalon High School	57/68502-00-002	Closeout	Modernization	√	2020
49	Franklin Elementary School District	Franklin Elementary School	58/71381-00-001	Closeout	Rehabilitation	√	2020

Attachment B - SCO Status of Review Report

No.	School District	School Site	Project Number	Type of Audit	Project Type	SCO Review Status - Certified	Certification Letter Sent Date
50	Palos Verdes Peninsula Unified School District	Palos Verdes High School	50/64865-00-006	Closeout	New Construction	√	2020
51	Palos Verdes Peninsula Unified School District	Palos Verdes High School	57/64865-00-025	Closeout	Modernization	√	2020
52	Sylvan Union School District	Sherwood Elementary	57/71290-00-007	Closeout	Modernization	√	2020
53	Carlsbad Unified School District	Hope Elementary School	57/73551-00-009	Closeout	Modernization	√	2020
54	Temecula Valley Unified School District	Temecula Valley High School	50/75192-00-039	Closeout	New Construction	√	2020
55	Kerman Unified School District	Kerman High School	50/73999-00-007	Closeout	New Construction	√	2020
56	Santa Maria Joint Union High School District	Santa Maria High School	50/69310-00-004	Closeout	New Construction	√	2020
57	Orland Unified School District	Mill Street Elementary	57/75481-00-005	Closeout	Modernization	√	2020
58	Calistoga Joint Unified School District	Calistoga Elementary	57/66241-00-003	Closeout	Modernization	√	2020
59	Washington Unified School District	Washington Union High School	57/76778-00-003	Closeout	Modernization	√	2020
60	Grossmont Union High School District	Grossmont High School	57/68130-00-018	Closeout	Modernization	√	2020
61	Redondo Beach Unified School District	Alta Vista Elementary School	57/75341-00-020	Closeout	Modernization	√	2020
62	Redondo Beach Unified School District	Beryl Elementary School	57/75341-00-022	Closeout	Modernization	√	2020
63	Redondo Beach Unified School District	Jefferson Elementary School	57/75341-00-019	Closeout	Modernization	√	2020
64	Redondo Beach Unified School District	Tulita Elementary School	57/75341-00-021	Closeout	Modernization	√	2020
65	Pittsburg Unified School District	Martin Luther King Jr. Junior High	57/61788-00-009	Closeout	Modernization	√	2020
66	San Marcos Unified School District	San Marcos High School	50/73791-00-014	Closeout	New Construction	√	2020
67	Colton Joint Unified	Grant Elementary School	57/67686-00-013	Closeout	Modernization	√	2020
68	Colton Joint Unified	Crestmore Elementary School	57/67686-00-014	Closeout	Modernization	√	2020
69	Colton Joint Unified	Cooley Ranch Elementary School	57/67686-00-016	Closeout	Modernization	√	2020