



# Audit Requirements for Child Development Program Contractors

**CALIFORNIA DEPARTMENT OF EDUCATION**  
Tony Thurmond, State Superintendent of Public Instruction

---

---

---

---

---

---

---

---

## Introduction

Laura Langston, CPA, CIA  
 Audit Manager  
 Audit Report Review Section  
 Audits & Investigations Division  
 Phone: (916) 323-5752  
 E-mail: [llangston@cde.ca.gov](mailto:llangston@cde.ca.gov)  
 Website: <https://www.cde.ca.gov/fg/au/pm/>

---

---

---

---

---

---

---

---

## Outline

- Overview of Program Requirements
- Audit Requirements
- Selecting a Certified Public Accountant (CPA)
- Submitting a Quality Audit Report

---

---

---

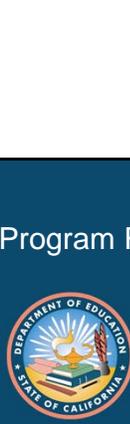
---

---

---

---

---



## Overview of Program Requirements

---

---

---

---

---

---

---

---

## Laws and Regulations

- Title 2, *Code of Federal Regulations* (CFR), Part 200: <https://bit.ly/2t4xUXF>
- Title 1, California *Education Code* (EC), Part 6, Chapter 2: <https://bit.ly/2FwNzbn>
- Title 5, *California Code of Regulations* (CCR), Division 1, Chapters 19 and 19.5: <https://bit.ly/2AMesVL>

---

---

---

---

---

---

---

---

## Funding Terms & Conditions

Defines requirements for operating a child care and development program.

- <https://www.cde.ca.gov/fq/aa/cd/ftc2019.asp>
- For questions relating to your program operation requirements, contact your agency's Child Development Consultant.

---

---

---

---

---

---

---

---

### CDNFS Fiscal Handbook

Explains attendance and fiscal reporting and reimbursement procedures.

- <https://www.cde.ca.gov/fg/aa/cd/California>
- For questions relating to the CDNFS Fiscal Handbook, contact your agency's Fiscal Analyst.

---

---

---

---

---

---

---

---

### CDE *Audit Guide*

Provides guidance on audit requirements and defines what is considered an acceptable audit report.

- <https://www.cde.ca.gov/fg/au/pm/documents/auditguide2015.pdf>
- For questions relating to the CDE *Audit Guide*, contact the Audits and Investigations Division Audit Report Review Section

---

---

---

---

---

---

---

---

### Audit Requirements




---

---

---

---

---

---

---

---

### California Education Code, Section 8448(g)

California *Education Code*, Section 8448(g) requires an annual financial and compliance audit of the **entire** organization, for each agency that contracts with the state under a direct service contract.

---

---

---

---

---

---

---

---

### Title 5, California Code of Regulations, Section 18071

- Title 5, *California Code of Regulations (5 CCR)*, Section 18071 requires an acceptable audit to be submitted to the California Department of Education (CDE), Audits & Investigations Division (A&I).
- The *CDE Audit Guide* defines the requirements of an acceptable audit and provides an example of an acceptable audit report in Appendix A.

---

---

---

---

---

---

---

---

### Types of Audit Reports

The *CDE Audit Guide* identifies two types of audit reports:

- Single Audit
- Contractor Audit

Both types of audits must be conducted in accordance with generally accepted auditing standards and Government Auditing Standards.

---

---

---

---

---

---

---

---

### Single Audit

If your agency expended \$750,000 or more of federal funds, you are required to submit a Single Audit report that meets the requirements of Title 2, *Code of Federal Regulations*, Part 200 (also known as Uniform Guidance).

- Child development programs are state and federally funded. Nutrition programs are primarily federally funded.

---

---

---

---

---

---

---

---

### Contractor Audit

If your agency expended under \$750,000 of federal funds, you are required to submit an organization-wide audit report (also known as a Contractor Audit).

---

---

---

---

---

---

---

---

### Audit Report Due Date

Your agency's audit report is due on the 15<sup>th</sup> day of the 5<sup>th</sup> month following your agency's fiscal year end.

- If the due date falls on a weekend or holiday, the due date will be extended to the next business day.

---

---

---

---

---

---

---

---

### Schedule of Due Dates

| Common Fiscal Year Ends | Audit Report Due Date             |
|-------------------------|-----------------------------------|
| 6/30/2020               | 2/16/2021 (Extended by MB 20-08a) |
| 8/31/2020               | 1/15/2021                         |
| 9/30/2020               | 2/16/2021                         |
| 12/31/2020              | 5/17/2021                         |
| 1/31/2021               | 6/15/2021                         |
| 2/28/2021               | 7/15/2021                         |
| 3/31/2021               | 8/16/2021                         |

---

---

---

---

---

---

---

---

---

---

### Extension Request

In accordance with 5 CCR, Section 18073, A&I may grant your agency a **one-time-only, 30-calendar-day** extension provided that the reason for the extension is beyond the fault and control of the agency.

- In other words, each fiscal year, A&I only has the authority to extend your agency's due date by one month.

---

---

---

---

---

---

---

---

---

---

### Extension Request (Continued)

- An example extension request form can be found in the *CDE Audit Guide*, Chapter 200, Exhibit C.
- Extensions are not granted to agencies on conditional contract status or for requests received after 4:00 PM on the day prior to the audit report due date.
- Requests must include the reason the request is needed.

---

---

---

---

---

---

---

---

---

---

### Submitting the Audit Report

Audit reports may be submitted electronically or by mail.

---

---

---

---

---

---

---

---

### Electronic Audit Report Submission

Instructions for how to electronically submit your agency's audit report will be sent annually along with the Annual Audit Status Certification request in mid-August.

- The project code and password are specific to the contract period.
- Handout: FY 2019–20 Electronic Submission Instructions

---

---

---

---

---

---

---

---

### Mailed Audit Reports

• Mail to:

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

---

---

---

---

---

---

---

---

### Delinquent Audit Reports

Pursuant to 5 CCR, Section 18073(a):

*If an audit is not received on or before the required due date and an extension has not been granted, the audit shall be considered delinquent and all apportionments shall be withheld...*

---

---

---

---

---

---

---

---

### Selecting an Auditor



---

---

---

---

---

---

---

---

### How to Obtain a List of CPAs

- State Controller's Office website: <https://cpads.sco.ca.gov/>
- Contact:

Robert Hoyer  
 Associate Governmental Program Analyst  
 Phone: (916) 445-6776  
 E-mail: [rhoyer@cde.ca.gov](mailto:rhoyer@cde.ca.gov)

---

---

---

---

---

---

---

---

### Start Early!

Don't wait until the last minute. An auditor may be able to start prior to your agency's fiscal year end.

---

---

---

---

---

---

---

---

### Resources

Both the California Board of Accountancy (CBA) and Uniform Guidance provide advice for what to consider when selecting an auditor.

- CBA's website: <https://www.dca.ca.gov/cba/consumers/select-a-cpa.shtml>
- 2 CFR § 200.509

---

---

---

---

---

---

---

---

### What to Consider When Selecting an Auditor

In general, a CPA must be both authorized and qualified to perform your agency's audit.

---

---

---

---

---

---

---

---

### Selecting an Authorized CPA

- The Certified Public Accountant (CPA) must be licensed by the California Board of Accountancy (CBA) to perform attest engagements.
- The CPA firm's and CPA's license should be in good standing (can be verified at: <https://www.dca.ca.gov/cba/consumers/lookup.shtml>).

---

---

---

---

---

---

---

---

### Reviewing a CPA's License Status

License Status: Clear



- Do not want to see: Canceled, Delinquent, Denied, Revoked, Deceased, etc.

---

---

---

---

---

---

---

---

### Reviewing the License's Expiration Date

Expiration Date: Should be a future date

- A CPA/CPA firm's license must be valid for the length of the engagement.




---

---

---

---

---

---

---

---

## Reviewing a CPA's License

Secondary Status: N/A

- Examples of Other Secondary Statuses: Probation or Restricted

LANIGTON, LAURA MICHELLE  
 LICENSE NUMBER: 137280 LICENSE TYPE: CERTIFIED PUBLIC ACCOUNTANT  
 LICENSE STATUS: CLEAR  EXPIRATION DATE: NOVEMBER 30, 2020  
 SECONDARY STATUS:   
 CITY: CARMICHAEL, STATE: CALIFORNIA COUNTY: SACRAMENTO ZIP: 95828

PUBLIC DOCUMENTS

1 CBA PUBLIC ENFORCEMENT DOCUMENTS (1)

---

---

---

---

---

---

---

---

---

---

## Reviewing a CPA's License

Experience Completed: A

LANIGTON, LAURA MICHELLE  
 LICENSE NUMBER: 137280 LICENSE TYPE: CERTIFIED PUBLIC ACCOUNTANT  
 LICENSE STATUS: CLEAR  EXPIRATION DATE: NOVEMBER 30, 2020  
 SECONDARY STATUS: N/A  
 CITY: CARMICHAEL, STATE: CALIFORNIA COUNTY: SACRAMENTO ZIP: 95828

LICENSING DETAILS FOR: 137280

NAME: LANIGTON, LAURA MICHELLE  
 LICENSE TYPE: CERTIFIED PUBLIC ACCOUNTANT  
 LICENSE STATUS: CLEAR   
 EXPERIENCE COMPLETED:

---

---

---

---

---

---

---

---

---

---

## Selecting a Qualified CPA

- A CPA conducting audits in accordance with Government Auditing Standards is required to have a peer review conducted every three years.
  - Obtain and review a copy of the peer review report.
- The CPA should have experience performing audits of child development programs or other state and federal programs.

---

---

---

---

---

---

---

---

---

---

### Other Considerations

- Responsiveness to the request for proposal
- Price
- Commitment to work with CDE

---

---

---

---

---

---

---

---

### Submitting a Quality Audit Report



---

---

---

---

---

---

---

---

### A&I's Audit Report Review

A&I's review has three components:

1. Does the audit report meet submission requirements?
2. Does the audit report appear reliable?
3. Is the information in the Audited Attendance and Fiscal Reports supported by the supplementary information?

---

---

---

---

---

---

---

---

### Review Steps Summary

Handout: Quality Review Checklist for California Department of Education Child Development Program Supplementary Information

- Provide a copy of the Quality Review Checklist to your CPA
- Use during your review of the draft audit report.

---

---

---

---

---

---

---

---

### General Common Review Issues

The following issues will result in follow-up with the CPA:

- The audit report is missing required schedules.
- The Audited Attendance and Fiscal Reports (AUDs) are on the incorrect form or are missing.
- A management letter was provided to the agency but not submitted to the CDE with the audit report.
- The AUDs do not agree to the supporting supplemental schedules.

---

---

---

---

---

---

---

---

### Common Review Issue: Missing Pages

Non-certified days of enrollment or supplemental revenue and expenses are not reported, but the "No Non-Certified Children" or "No Supplemental Revenue" boxes are not marked.

|   |  |  |  |  |
|---|--|--|--|--|
| Total Reimbursable Expenses   |  |  |  |  |
| Total Administrative Cost (included in section 2 above)                           |  |  |  |  |
| Days of Operation   |  |  |  |  |
| Approved Indirect Cost Rate: <input type="text"/>                                 |  |  |  |  |
| <input type="checkbox"/> NO SUPPLEMENTAL REVENUE. Check this box and omit Page 3. |  |  |  |  |
| Page: <input type="text"/>  |  |  |  |  |

---

---

---

---

---

---

---

---

### Common Review Issue: Reporting Capitalized and Non-Capitalized Equipment

Tangible personal property 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 is reported in the 6400 or 6500 cost categories.

|  |                         |  |  |  |
|--|-------------------------|--|--|--|
| 4000 Books and Supplies                      |                         |  |  |  |
| 5000 Services and Other Operating Expenses   |                         |  |  |  |
| 6100/6200 Other Approved Capital Outlay      |                         |  |  |  |
| 6400 New Equipment (program-related)         | } Capitalized Equipment |  |  |  |
| 6500 Equipment Replacement (program-related) |                         |  |  |  |

---

---

---

---

---

---

---

---

### Common Review Issue: Administrative Costs

Reported administrative costs equal exactly 15%, which indicates one of the following:

- The agency has not developed a rationale for determining direct and administrative costs.
- The agency is not allocating administrative costs based upon benefits received by the program.
- The agency is not reporting all reimbursable costs.

---

---

---

---

---

---

---

---

### Common Review Issue: Administrative Costs (Continued)

|   |  |
|---|--|
| Direct Payments to Providers:                           |  |
| 1000 Certificated Salaries                              |  |
| 2000 Classified Salaries                                |  |
| 3000 Employee Benefits                                  |  |
| 4000 Books and Supplies                                 |  |
| 5000 Services and Other Operating Expenses              |  |
| 6100/6200 Other Approved Capital Outlay                 |  |
| 6400 New Equipment (program-related)                    |  |
| 6500 Equipment Replacement (program-related)            |  |
| Depreciation or Use Allowance                           |  |
| Indirect Costs (Include in Administrative Cost)         |  |
| Non-Reimbursable (State Use Only)                       |  |
| <b>Total Reimbursable Expenses</b>                      |  |
| Total Administrative Cost (included in section 2 above) |  |

Report all expenses (direct and administrative) related to the program that are reimbursable by the contract.

Report the amount of the above costs that are administrative.

---

---

---

---

---

---

---

---

### COVID Related Reporting Issues

- Emergency Closure Reporting – Days should be included in the Audited Attendance and Fiscal Reports.
- Payroll Protection Program – Funds must be reported as restricted income on the same AUD as the related expenses.

---

---

---

---

---

---

---

---

### Disallowed Costs

The following issues will result in disallowed costs:

- Indirect costs exceed 10%.
- The agency rents from a related party and did not obtain a fair market value appraisal to support the rent expense.

---

---

---

---

---

---

---

---

### Disallowed Costs - Preapprovals Required

- The agency did not receive prior approval from its Child Development Consultant (Consultant) for equipment purchases or renovation and repair expenses over thresholds identified in the Funding Terms & Conditions, Section III – Facilities and Equipment.
- The agency did not receive prior approval from its Consultant for a subcontract.
- The agency claimed interest on consumer credit without prior approval from its Consultant.

---

---

---

---

---

---

---

---

### Audit Report Rejection

The following issues are likely to result in a rejected audit report:

- The audit is of the contract and not the contractor.
- The agency did not submit an audit for its subcontractor.
- Issues outstanding for extended periods of time.

Rejected audit reports are considered delinquent and will result in withheld apportionment payments

---

---

---

---

---

---

---

---

### A&I's Completed Review

Once A&I's review is complete, A&I will send the final AUDs to CDNFS to generate a final earnings calculation.

- A&I will also notify CDNFS and the agency's Consultant of any organization-wide or programmatic audit findings.

---

---

---

---

---

---

---

---

### Appeal Rights

You have the right to appeal if the final earnings calculation results in a billing that meets one of the following conditions:

- The billing is more than 4% of the contractor's Maximum Reimbursable Amount or more than \$25,000, whichever is less.
- 100% billing (occurs if an acceptable audit is not received).

---

---

---

---

---

---

---

---

### Appeal Rights (Continued)

- CDNFS will notify your agency in writing if you have the option to appeal. This notice describes the appeal procedures.
- Your agency has 15 days from CDNFS' notification to submit an appeal request.

---

---

---

---

---

---

---

---

The End



---

---

---

---

---

---

---

---