



Audit Requirements for Child Development Program Contractors

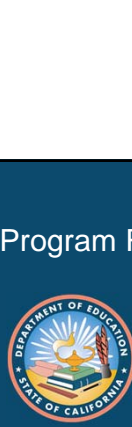
CALIFORNIA DEPARTMENT OF EDUCATION
Tony Thurmond, State Superintendent of Public Instruction

Introduction

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Audits & Investigations Division
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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 15th day of the 5th 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: rhoer@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: 95608

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: 95608

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)	
Total Reimbursable Expenses	
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