

ANNUAL REPORT TO THE FIRST 5 CALIFORNIA COMMISSION

RESULTS OF AUDIT OVERSIGHT OF COUNTY COMMISSIONS

For the Period of July 1, 2018, through June 30, 2019



BETTY T. YEE
California State Controller

October 2020



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California State Controller

October 30, 2020

Camille Maben, Executive Director
First 5 California Commission
2389 Gateway Oaks Drive, Suite 260
Sacramento, CA 95833

**SUBJECT: Annual Report to the First 5 California Commission
Results of Audit Oversight of County Commissions**

Dear Ms. Maben:

I am pleased to submit our annual report to the First 5 California Commission. The report summarizes the results of our review of the independent audits of the First 5 county commissions for fiscal year (FY) 2018-19. This report also summarizes the results of our review of the audit findings identified in the independent auditor's report to the county commissions.

This is the thirteenth report submitted in accordance with Senate Bill 35 (Chapter 243, Statutes of 2005), which mandated an expanded audit of every county commission funded by the California Children and Families Act of 1998. Each commission was required to adopt a range of policies including contracting and procurement, administrative expenditure limits, conflict of interest, staff compensation, and long-range financial planning. Each county commission is required to have an annual independent audit that is reviewed by the State Controller's Office.

Our review focused on the county commissions' compliance with program requirements (as reported by their independent auditors) specified in the California Health and Safety Code. We also verified the independent auditors' compliance with auditing standards and the expanded audit guidelines when performing the county commission audits. The audit findings and audit findings follow-up section of our report provide information related to the findings from each county commission's independent audit report. Lastly, where applicable, our report contains comparative statistics from the results of our desk reviews of the independent audits for FY 2018-19, FY 2017-18, and FY 2016-17.

Camille Maben, Executive Director
October 30, 2020
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I hope that our report will be useful to you in assessing the county commissions' activities and compiling your annual report to the California State Legislature. Please direct any comments regarding the content of the report to Joel James, Chief of the Controller's Financial Audits Bureau, at jjames@sco.ca.gov or (916) 323-1573.

Sincerely,

Original signed by

DAVE O'TOOLE
Chief Operating Officer

DO/as

Enclosure

cc: Marcia Thomas, Director
Fiscal Services Office
First 5 California Commission

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Executive Summary

The California Children and Families Act was created in 1998 by the passage of Proposition 10. The California Children and Families Act was amended in 2005, giving the State Controller's Office (SCO) oversight responsibility for audits of the First 5 county commissions. The objective of the amendment was to provide the First 5 California Commission with independently verified fiscal and state compliance information obtained from audits performed in accordance with applicable standards and requirements.

SCO oversight responsibility includes providing audit guidelines, reviewing county commissions' annual audit reports for compliance with applicable auditing standards and guidelines, and following up on findings contained in the audit reports to ensure compliance with policies and practices specified in the California Health and Safety Code. SCO approves and makes substantive changes to the audit guide as necessary after consultation with an audit guide committee composed of representatives from the First 5 California Commission and county commissions.

Each year, SCO performs its oversight activities through a cycle of receiving, reviewing, and reporting on the auditors' reports for each county commission. This report summarizes the results of our review of independent auditors' reports for compliance with applicable standards and requirements. This report also summarizes the results of our review and follow-up on audit findings identified in the independent auditors' reports to the county commissions.

This is the thirteenth report submitted in accordance with the expanded audit statutes chaptered into law in 2005; therefore, this report includes comparative results. Our report contains the following key observations we made during our review of the county commissions' independent audit reports:

- Of the 58 independent audit reports, 47 (81%) independent auditors complied with audit guide requirements and/or audit standards. In comparison, compliance was 90% in fiscal year (FY) 2017-18 and 91% in FY 2016-17.
- Of the 58 counties, 41 (71%) submitted the required audit reports by the November 1 deadline. In comparison, 72% of the audits in FY 2017-18 and 86% of the audits in FY 2016-17 were submitted by the deadline.

In addition to the observations we made during our review of the reports, the independent auditors identified a total of 14 audit findings at nine county commissions; 11 of the audit findings were categorized as internal control and three were categorized as state compliance. In comparison, four of the FY 2017-18 audit reports contained a total of six audit findings (five internal control and one state compliance), and eight of the FY 2016-17 audit reports contained a total of nine audit findings (eight internal control and one state compliance).

We also noted that the independent auditors for two of the 58 county commissions issued qualified opinions. One local commission did not comply with the Governmental Activities reporting requirements and another local commission did not comply with the State Compliance requirements. During the review cycle for FY 2017-18, two local commissions' independent auditors issued qualified opinions. In FY 2016-17, the independent auditor for two local commissions issued a qualified opinion.

Lastly, for FY 2018-19, SCO did not recommend withholding funding allocations from any commission for failure to correct—or provide a viable plan to correct—audit findings.

Introduction

Overview

SCO's Division of Audits is responsible for performing the oversight activities for independent audits of county commissions administering the First 5 program authorized by the California Children and Families Act. Oversight activities consist of:

- Developing an audit guide based on the Health and Safety Code and applicable auditing standards;
- Verifying (via desk reviews/analysis) that independent audit reports, contracted for by the county commissions, complied with auditing standards and the audit guide; and
- Verifying county commission compliance with policies and practices (specified in the Health and Safety Code) by reviewing and following up on audit findings reported in the independent audits.

Health and Safety Code (HSC) section 130151 (added by Chapter 243, Statutes of 2005) requires SCO to issue guidelines for annual expanded audits¹ that require independent auditors to review county commission compliance with policies and practices related to:

- Contracting and procurement
- Administrative costs
- Conflict of interest
- County ordinance(s)
- Long-range financial plans
- Financial condition of the commission
- Program evaluation
- Salaries and benefits policies

HSC section 130151 also requires that SCO:

- Determine, within six months of the state or county commission's response pursuant to subdivision 130151(d), whether the county commission has successfully implemented corrective action in response to the findings contained in its audit report;
- Recommend that the First 5 California Commission withhold funding allocations for county commissions unable to provide SCO with a viable plan to correct identified audit findings; and

¹Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act (First 5 Audit Guide).

- Submit to the First 5 California Commission, by November 1 of each year, a report summarizing the results of the reviews of the county commissions' audits for the preceding reporting cycle.

Background

First 5 Program

The California Children and Families Act authorized the First 5 program. The California Children and Families Act requires that the First 5 program be funded by surtaxes imposed on the sale and distribution of cigarettes and tobacco products. The California Children and Families Act further requires that the funds be deposited into the California Children and Families Trust Fund, for the implementation of comprehensive early childhood and smoking-prevention programs.

SCO Oversight

Senate Bill (SB) 35 (Chapter 243, Statutes of 2005) added SCO oversight and reporting requirements (HSC section 130151). Prior to SB 35, existing law already included a fiscal/audit reporting component; therefore, the addition of SCO oversight was considered to be an expansion of those requirements. Consequently, the county commissions refer to SCO audit guidelines as “expanded” audit guidelines.

SCO—along with a committee composed of representatives from the First 5 California Commission, county commissions, the Government Finance Officers Association, county auditor-controllers, and independent auditors—developed the initial audit guide based on statutory requirements enumerated in HSC section 130151(b). The guide is updated as necessary by a committee composed of representatives from SCO, the First 5 California Commission, and the county commissions. HSC section 130151(b) specifies the scope of the independent audits.

Independent Audit Report Requirements

Health and Safety Code requires the auditors for county commissions, or county commissions themselves², to submit an independent audit report to both SCO and the First 5 California Commission each year by November 1. The fiscal year ended June 30, 2019, was the thirteenth year that the 58 county commissions were subject to SCO's expanded audit guidelines; the resulting audit reports were due by November 1, 2019.

²The submission deadline is based on two statutory codes, one requiring the submission and one specifying the deadline:

- HSC section 130151(c) requires that “the auditor for the state commission or the county commission shall submit each audit report, upon completion, simultaneously to both the Controller and to the state commission or applicable county commission.”
- HSC section 130150(a) requires that “On or before November 1 of each year, each county commission shall submit its audit and report to the state commission.”

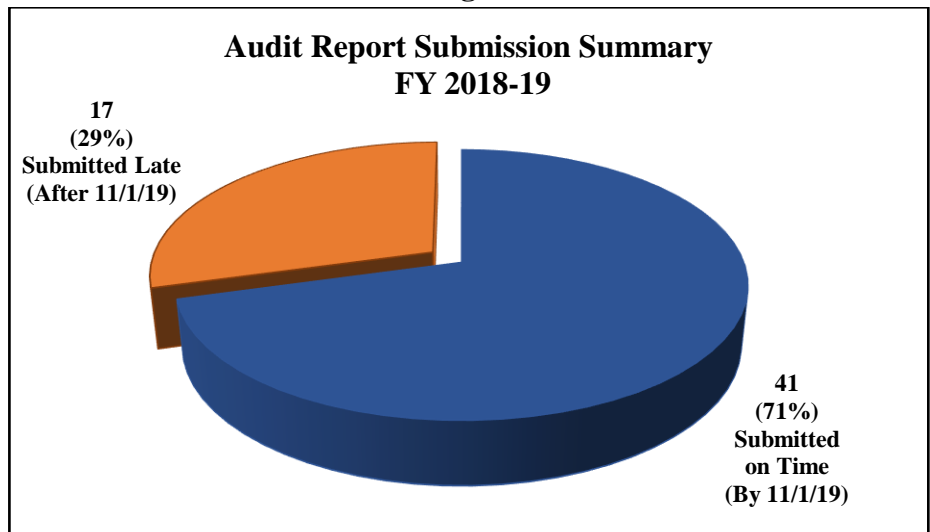
Results of Oversight Activities

Audit Report Submissions

Independent auditors' reports for each county commission for the preceding fiscal year must be submitted to SCO by November 1 of the current fiscal year. As noted in Figure 1, for FY 2018-19, 41 (71%) county commission audit reports were submitted by the required deadline, while 17 (29%) were submitted after the required deadline. Of the 17 reports submitted after the required deadline, nine (16%) were submitted within 30 days of the deadline, while the remaining eight audit reports (14%) were submitted more than 30 days late.

Two of the eight county commissions stated that their reports were more than 30 days late due to the reporting requirements in Governmental Accounting Standards Board Statement No. 75 (GASB Statement No. 75). These county commissions experienced delays in obtaining the required financial documentation from the agency that manages pension benefits. One of the eight county commissions submitted its report more than 30 days late due to an unforeseen medical situation. One of the eight county commissions submitted its report more than 30 days late due to commission staff changes. Another county commission submitted its report more than 30 days late due to the transitioning of audit firms and the prior-year required financial statement adjustments. As a result, the audit could not be completed in a timely manner. The remaining three county commissions submitted their reports more than 30 days late due to report submission oversight.

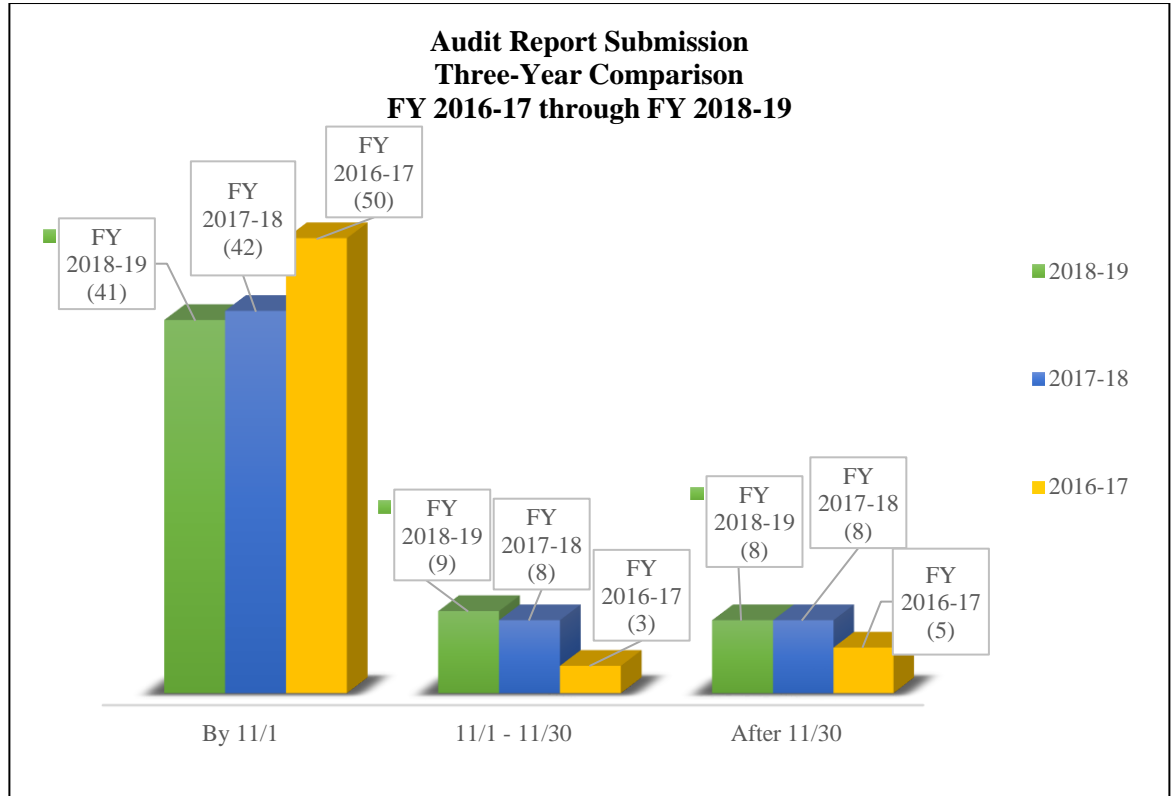
Figure 1



Compared with the FY 2017-18 and FY 2016-17 audit review cycle, in FY 2018-19 there was a decrease in audit reports submitted on time (41). During the FY 2017-18 review cycle,

42 audit reports were submitted on time. For the FY 2016-17 review cycle, 50 audit reports were submitted on time. For the FY 2018-19 review cycle, eight audit reports were submitted more than 30 days late. See Figure 2 for comparative data on report submissions.

Figure 2



Audit Review and Certification Process

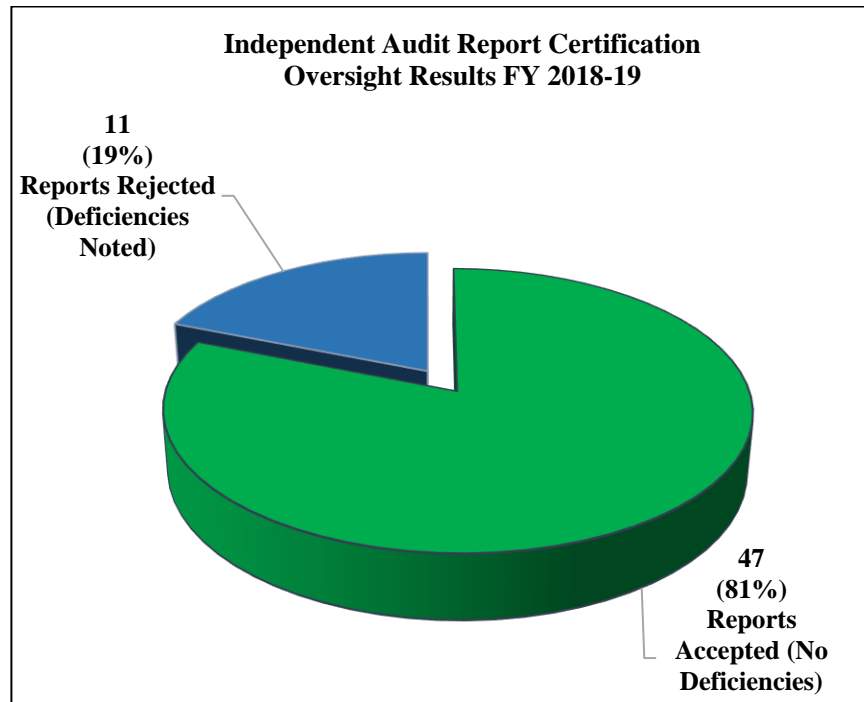
In accordance with HSC section 130151, SCO reviews and certifies the annual independent audit reports issued by the auditors for each county commission for compliance with applicable auditing standards and the audit guidelines set forth in the *First 5 Audit Guide*.

To facilitate the consistent review and certification of each audit report, SCO created a comprehensive desk review checklist that details and categorizes the program requirements specified in the *First 5 Audit Guide*. The desk review checklist also includes the required components of an audit report based on auditing standards generally accepted in the United States and government auditing standards. The desk review checklist is also annually updated in response to changes in auditing standards and program requirements. This report summarizes the instances of non-compliance that we found within the independent auditors’ reports.

Audit Report Deficiencies

A deficiency is an instance of an independent auditor’s non-compliance with auditing standards and/or the *First 5 Audit Guide* issued by SCO. Independent auditors, not county commissions, are responsible for addressing deficiencies in their reports on the county commissions. Based on our desk reviews of the FY 2018-19 county commission audits, we found that 11 of the 58 independent audits (Figure 3) contained deficiencies. SCO notified each independent auditor and county commission in writing that the audit report required correction(s). The rejection letters identified the deficiency/deficiencies noted during our review, and the criteria used to determine non-compliance.

Figure 3



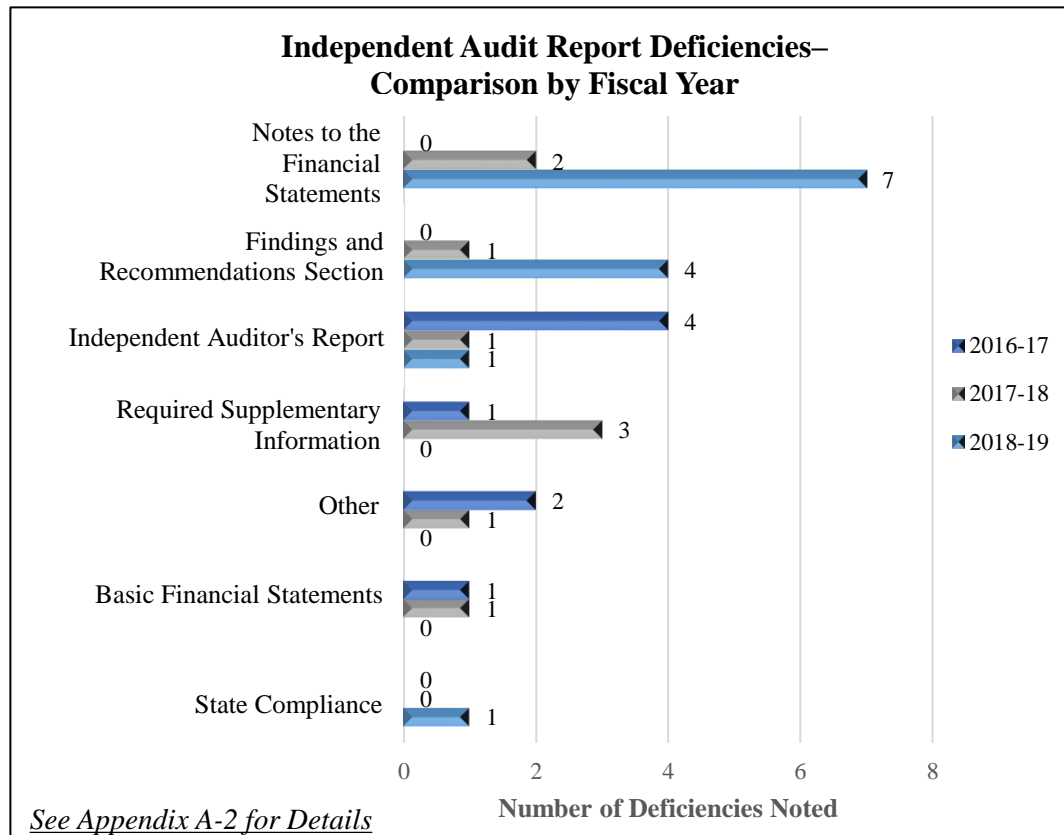
Notable Audit Report Deficiencies

As detailed in Figure 4, during our review and certification cycle, we identified 13 deficiencies in 11 rejected reports. The audit report deficiencies were related to the Notes to the Financial Statements, Findings and Recommendations section, Independent Auditor’s Report, and the State Compliance Report. The majority of the deficiencies that we identified during our review pertained to the Notes to the Financial Statements. Specifically, the report note disclosures on other post-employment benefit plan (OPEB), did not include benefit terms information, the schedule of changes in the net OPEB liability, and the plan’s fiduciary net position information. Deficiencies that we identified during our review are described in detail in Appendix A-1 and comparatively in Appendix A-2.

Other notable deficiencies that we identified were:

- The Independent Auditor’s Report contained erroneous information and did not refer to the required supplementary information;
- The Findings and Recommendations section did not include all of the required elements of an audit finding; and
- The State Compliance Report contained duplicate information, and did not include other required information.

Figure 4



***Comparison of
Independent Audit
Report Deficiencies
by Fiscal Year***

During this review cycle (FY 2018-19), we found 13 independent audit report deficiencies (see Appendix A-1 for detailed category breakdown). This represents an increase from the prior year; there were nine deficiencies in FY 2017-18. In FY 2016-17, we identified eight deficiencies. Of the 13 independent audit report deficiencies identified for FY 2018-19, seven (54%) were related to the Notes to the Financial Statements. Six of the 11 county commissions’ independent auditors’ reports included deficiencies related to the auditor’s reporting in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

During this review cycle, SCO did not identify any independent audit reports that contained a recurring deficiency previously identified during the FY 2017-18 review cycle. For the FY 2017-18 or FY 2016-17 review cycles there were no recurring audit report deficiencies.

Figure 5 provides a breakdown by category of independent audit report deficiencies for the current and previous reporting periods. Appendix A-2 provides additional detail for each category for the three audit fiscal years.

Figure 5

Independent Audit Report Deficiencies – Comparison by Fiscal Year			
Category	Number of Occurrences		
	FY 2018-19	FY 2017-18	FY 2016-17
Notes to the Financial Statements	7	2	0
Findings and Recommendations Section	4	1	0
Independent Auditor’s Report	1	1	4
Basic Financial Statements	0	1	1
Required Supplementary Information	0	3	1
State Compliance Report	1	0	0
Other	0	1	2
Total	13	9	8

Findings Reported by the Independent Auditors

The independent auditors for nine of the 58 county commissions reported a total of 14 audit findings (Figure 6A): 11 categorized as internal control, and three categorized as state compliance (Figure 6B).

Figure 6A

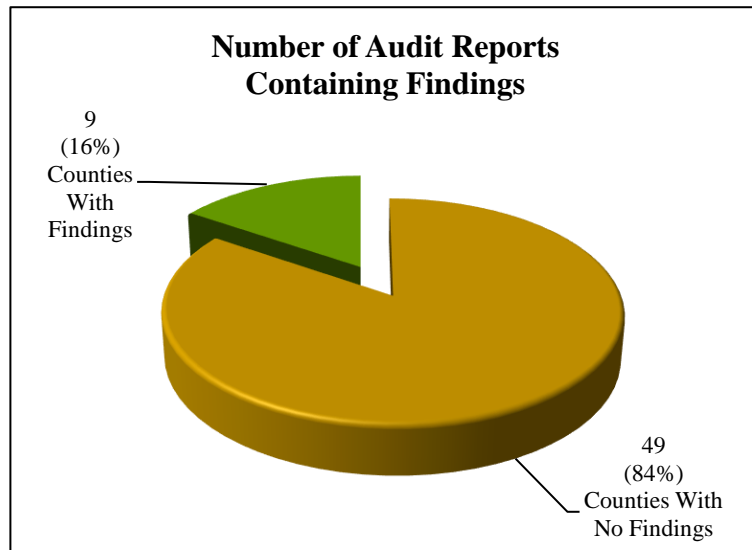
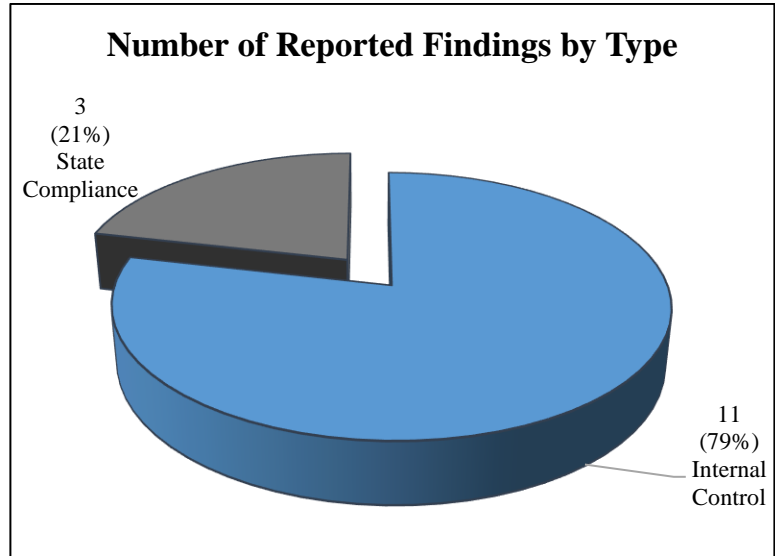


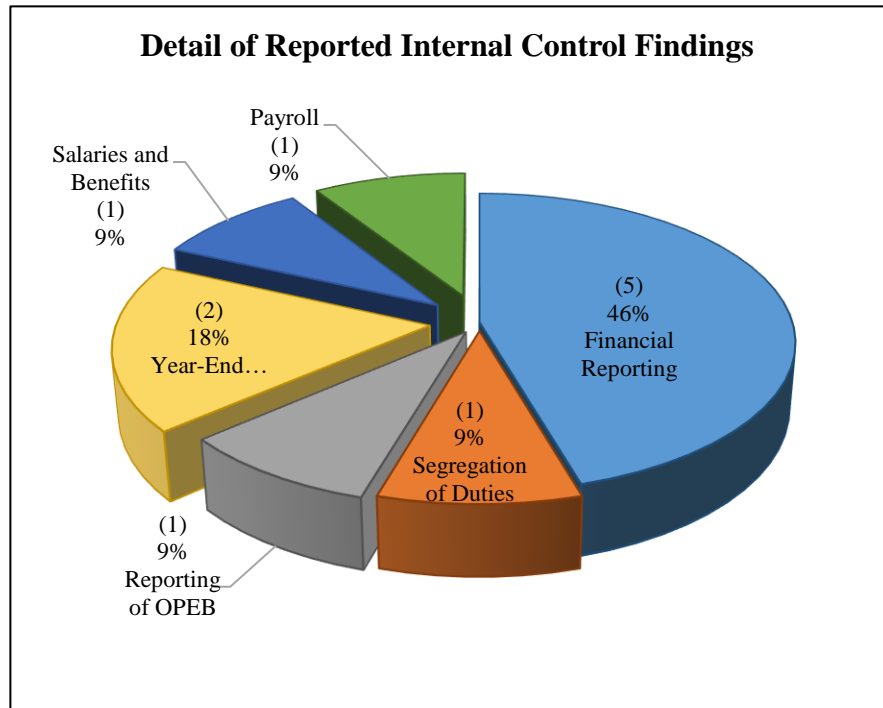
Figure 6B



Breakdown of Reported Internal Control Findings

During the FY 2018-19 review cycle, we identified six functional areas in the 11 internal control findings reported for FY 2018-19, as summarized in Figure 7.

Figure 7



Five of the 11 internal control findings are in the financial reporting category, and one of the five is related to a recurring situation that is not readily corrected in one reporting cycle. Specifically, this finding addresses the county commission’s reliance on its independent auditor to draft financial statements and/or accompanying notes to the financial statements.

Consistent with Clarified Statements on Auditing Standards, section AU-C 200.05, management has acknowledged responsibility for financial statements and accompanying notes. Therefore, when an independent auditor prepares (or significantly assists in preparing) these documents, it must be reported as an internal control finding under auditing standards applicable to FY 2018-19. This finding for the county commission’s report indicates that the commission does not find it feasible to hire additional staff, or to hire an additional independent auditor to prepare financial statements and/or accompanying notes.

Based on our follow-up of the audit finding, our review of the corrective action plan included in the commission meeting minutes, and the county commission’s response to the audit finding, the county commission has found it cost-prohibitive to hire staff or retain a public accountant to prepare the financial statements, but that the commission is working with its respective county auditor-controller to assist in preparing the financial statements and/or accompanying notes.

Our review of the county commission’s board meeting minutes indicated that the county commission apprised its governing commission of attempts to take corrective action or implement mitigating procedures. This issue with the preparation of financial statements is not easily remedied due to a number of factors, including limited resources and options for smaller or remote county commissions. The repeat finding from FY 2017-18 is a result of the county commission’s reliance on its auditor to prepare financial statements and accompanying notes.

***Breakdown of
Reported State
Compliance Findings***

For FY 2018-19, there were three state compliance findings. There was one state compliance finding for the FY 2017-18 and FY 2016-17 review cycles. Figure 8 summarizes the state compliance findings by fiscal year.

Figure 8

Comparative Detail of Audit Findings – State Compliance			
	FY 2018-19	FY 2017-18	FY 2016-17
Payroll	1	1	0
Policies and Procedures	1	0	1
Salaries and Benefits	1	0	0
Total Findings	3	1	1

***Qualified Opinion on
Governmental Activities***

For FY 2018-19, the independent auditors for two of the 58 county commissions issued qualified opinions. Specifically, one local commission did not comply with the reporting requirements of GASB Statement No. 68, and another local commission did not comply with the policies and practices specified in the California Health and Safety Code. Except for the effects of these qualified opinions, the independent auditors for the two local commissions issued unmodified opinions on the basic financial statements and the respective financial positions of the local commissions' governmental activities. In FY 2017-18 and FY 2016-17, independent auditors for two local commissions also issued qualified opinions due to failed implementation of GASB Statement No. 68.

**SCO Follow-up of
Reported Audit
Findings**

In addition to performing our desk review of the county commission audits, SCO is required to follow up on findings reported in the county commission audits. Specifically, HSC section 130151(e) requires:

Within six months of the state or county commission's response pursuant to subdivision (d), the Controller shall determine whether a county commission has successfully corrected its practices in response to the findings contained in the audit report. The Controller may, after that determination, recommend to the state commission to withhold the allocation of money that the county commission would otherwise receive from the California Children and Families Trust Fund until the Controller determines that the county commission has a viable plan and the ability to correct the practices identified in the audit.

In accordance with HSC section 130151(d) and *Government Auditing Standards* paragraphs 4.33 through 4.36, county commissions are required to submit responses to findings in their audit reports. Audit finding follow-up is accomplished in three ways:

- Review of evidence that the county commission has adopted a corrective action plan and/or resolved any findings. Evidence reviewed includes commission minutes, signed commission meeting agenda item documentation, and commission-approved audit finding responses;
- Review of the subsequent fiscal year financial and compliance audit. Audit standards require that the independent auditor or auditor-controller determine the status of previously reported audit findings; and
- Onsite visits or telephone conference by SCO staff with county commissions with audit findings.

For the FY 2018-19 audit review cycle, SCO performed follow-up of the audit findings via telephone conference with six of the nine county commissions whose independent audit reports contained findings. Our follow-up resulted in a review of 43% of the total reported findings for all nine county commissions. The nine county commissions provided corrective action plans and other documentation to substantiate resolution of their FY 2018-19 audit findings.

Based on our desk reviews of commission meeting minutes and telephone conference follow-up of audit findings, SCO did not recommend withholding funding allocations from any commission for failure to correct or to provide a viable plan to correct audit findings.

Compliance with Requirement for Public Discussion of Reported Audit Findings

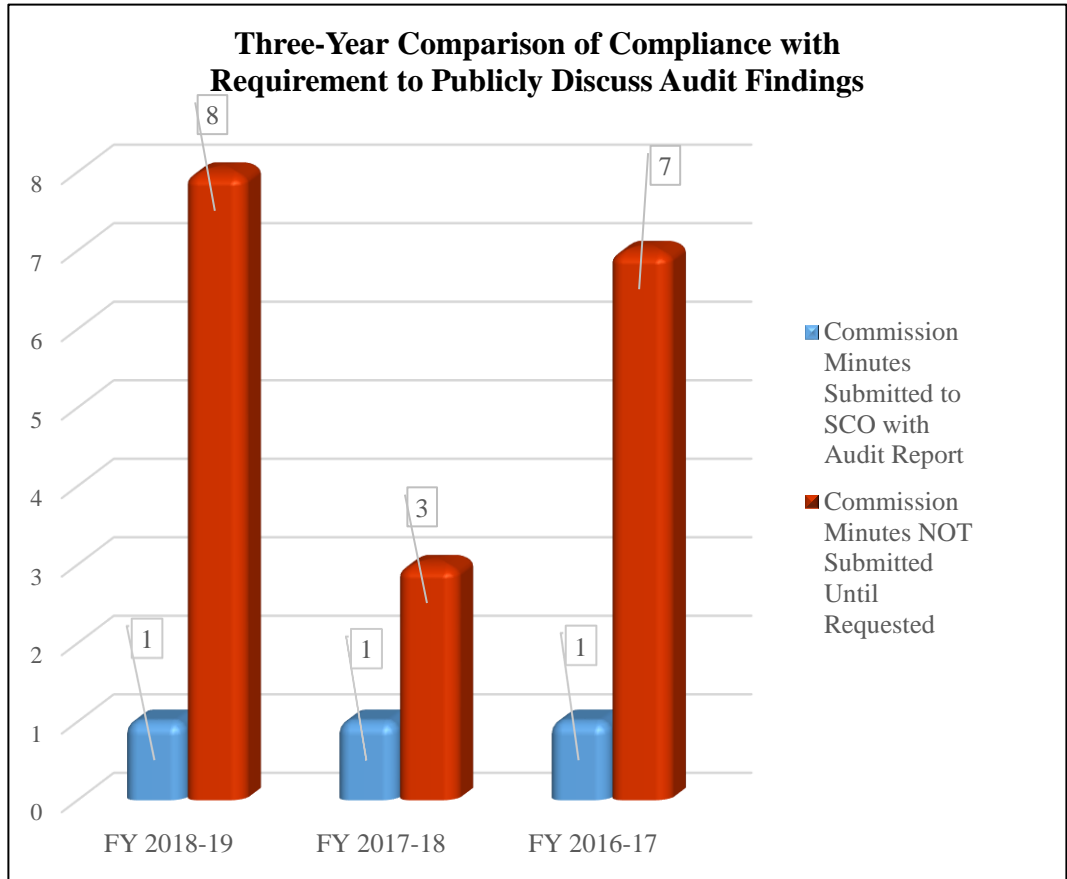
The county commissions are required to discuss their audit findings in a public hearing, and submit to the Controller a response to the audit findings. Specifically, HSC section 130151(d) states, in part, that:

...each respective county commission shall schedule a public hearing within two months of receipt of the audit to discuss findings within the report and any response to the findings. Within two weeks of the public hearing, the state or county commission shall submit to the Controller a response to the audit findings.

In September 2009, SCO issued an advisory requesting that county commissions submit evidence (e.g., commission minutes and signed commission meeting agenda item documentation) of public discussion of audit findings and any related corrective action plans with their independent audit reports. However, for the last 12 review cycles, multiple county commissions failed to submit the required documentation until requested to do so by SCO.

For FY 2018-19, only one of the nine county commissions whose independent audit contained a finding submitted public discussion-related documentation to the SCO with their audit report (Figure 9). Upon request, the remaining eight county commissions submitted the required documentation. Based on the SCO review of the documentation submitted, all nine county commissions with audit findings held public hearings discussing the findings and related corrective action plans as required by HSC section 130151(d).

Figure 9



Appendix A-1
Summary of Independent Audit Report Deficiencies
Fiscal Year 2018-19

Description of Audit Report Deficiency	Number of Occurrences
<u>Independent Auditor's Report on the Financial Statements</u>	
The Independent Auditor's Report included erroneous information, and did not include all of the required elements of the required supplementary information section of the report.	1
<u>Notes to the Financial Statements</u>	
The Notes to the Financial Statements did not include the description of benefits terms of the Other Post-Employment Benefit (OPEB) plan.	1
The Notes to the Financial Statements did not include the number of employees covered by the benefit terms of the OPEB plan.	4
The Notes to the Financial Statements did not disclose the fiduciary net position of the OPEB plan.	1
The Notes to the Financial Statements did not include the schedule of changes in the OPEB liability.	1
<u>State Compliance Report</u>	
The list of required audit procedures reported in the State Compliance Report was incomplete.	1
<u>Findings and Recommendations Section</u>	
The audit finding did not include the criteria.	1
The audit finding did not include the recommendation.	2
The audit finding was not coded with a reference number.	1
Total	<u>13</u>

Appendix A-2

Summary of Independent Audit Report Deficiencies Three-Year Comparison

Description of Audit Report Deficiency	Number of Occurrences		
	FY 2016-17	FY2017-18	FY2018-19
<u>Independent Auditor's Report on the Financial Statements</u>			
The report did not include the reference to the <i>Government Auditing Standards</i> in the statement that the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States.	4	0	0
The Independent Auditor's Report included erroneous information, and did not include all of the required elements of the required supplementary information section of the report.	0	0	1
The report contains an inaccurate or inconsistent reference to a separate report.	0	1	0
<u>Basic Financial Statements</u>			
The Governmental Statement of Revenues, Expenditures, and Changes in Fund Balance was not presented properly.	1	1	0
<u>Notes to the Financial Statements</u>			
Other Postemployment Benefits (OPEB) note did not include the OPEB plan benefit terms.	0	0	1
The Notes to the Financial Statements did not include the number of employees covered by the benefit terms of the OPEB plan.	0	1	4
The Notes to Financial Statements did not include the required statement on whether the OPEB plan issues a stand-alone financial report that is available to the public and, if so, how to obtain it.	0	1	0
The Notes to the Financial Statements did not disclose the fiduciary net position of the OPEB plan.	0	0	1
The Notes to the Financial Statements did not include the schedule of changes in the OPEB liability.	0	0	1

Appendix A-2 (continued)

<u>Description of Audit Report Deficiency</u>	<u>Number of Occurrences</u>		
	<u>FY 2016-17</u>	<u>FY2017-18</u>	<u>FY2018-19</u>
<u>Required Supplementary Information</u>			
The schedule of budgetary comparison data for the general fund and any major special revenue funds that have legally adopted budgets was not presented properly.	1	1	0
The report did not include the entity's OPEB liability, changes in the net OPEB liability, or entity's proportionate share of the net OPEB liability or a schedule of the entity's OPEB contributions.	0	2	0
<u>State Compliance Report</u>			
The list of required audit procedures reported in the State Compliance Report was incomplete.	0	0	1
<u>Findings and Recommendations</u>			
The audit finding did not include the criteria.	0	0	1
The audit finding did not include the recommendation.	0	0	2
The audit finding was not coded with a reference number.	0	0	1
The Schedule of Prior Audit Findings contained inaccurate or inconsistent reference to the current-year audit finding.	0	1	0
One or more of the auditor's reports did not include the manual or printed signature of the auditor's firm, the firm's city and state, and the date of the auditor's report.	2	1	0
Total	<u>8</u>	<u>9</u>	<u>13</u>

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