

ANNUAL REPORT TO THE FIRST 5 CALIFORNIA COMMISSION

RESULTS OF AUDIT OVERSIGHT OF COUNTY COMMISSIONS

For the Period of July 1, 2019, through June 30, 2020



BETTY T. YEE
California State Controller

November 2021



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California State Controller

November 1, 2021

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

Dear Ms. Maben:

I am pleased to submit our annual report to the First 5 California Commission in accordance with Senate Bill 35 (Chapter 243, Statutes of 2005). The State Controller's Office 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.

This report summarizes the results of our review and certification of the independent annual audits of the First 5 county commissions submitted for fiscal year 2019-20. Additionally, this report summarizes our review of the audit findings disclosed in the independent annual auditor's reports on the First 5 county commissions and our follow-up on the status of the corrective actions.

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

KIMBERLY TARVIN, CPA
Chief, Division of Audits

KT/as

Attachment

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

Contents

Executive Summary	1
Introduction	
Overview	3
Background	4
Results of Oversight Activities	
Audit Report Submissions	5
Audit Review and Certification Process	6
Audit Report Deficiencies.....	7
Findings Reported by the Independent Auditors	9
SCO Follow-up of Reported Audit Findings	11
Compliance with Requirement for Public Discussion of Reported Audit Findings	12
Appendixes	
Appendix A-1: Summary of Independent Audit Report Deficiencies (Fiscal Year 2019-20)	14
Appendix A-2: Summary of Independent Audit Report Deficiencies (Three-Year Comparison).....	15

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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 responsibilities include:

- 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. Our review of the county commissions' independent audit reports for fiscal year (FY) 2019-20 identified the following:

- Of the 58 independent audit reports, 53 (91%) independent auditors complied with audit guide requirements and/or audit standards. In comparison, compliance was 81% in FY 2018-19 and 90% in FY 2017-18.
- Of the 58 counties, 39 (67%) submitted the required audit reports by the November 1 deadline. In comparison, 71% of the audits in FY 2018-19 and 72% of the audits in FY 2017-18 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 eight internal control audit findings at six county commissions. For this reporting period, there were no state compliance audit findings. In comparison, nine of the FY 2018-19 audit reports contained a total of 14 audit findings (11 internal control and three state compliance), and four of the FY 2017-18 audit reports contained a total of six audit findings (five internal control and one state compliance).

We also noted that the independent auditors for one of the 58 county commissions issued a qualified opinion on the local commissions' Governmental Activities.¹ One local commission did not comply with the Governmental Activities reporting requirements. During the review cycle for FY 2018-19, two local commissions' independent auditors issued qualified opinions. In FY 2017-18, the independent auditors for two local commissions issued a qualified opinion.

For FY 2019-20, SCO did not recommend withholding funding allocations from any commission for failure to correct—or provide a viable plan to correct—audit findings.

¹ The auditor expresses a qualified opinion when either: 1) the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements; or 2) the auditor is unable to obtain sufficient appropriate audit evidence on which to base an opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Introduction

Overview

First 5 California distributes funds to local communities through the state's 58 counties, all of which have a local First 5 county commission. SCO's Division of Audits is responsible for performing the oversight activities for independent audits of the county commissions. The oversight activities consist of:

- Developing an audit guide based on the Health and Safety Code and applicable auditing standards;
- Verifying (via desk reviews and/or 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 audits.² As part of these expanded audits, independent auditors are required to review county commissions' 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;

²*Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act (the First 5 Audit Guide).*

- 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
- 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 35 (Chapter 243, Statutes of 2005) requires SCO oversight and reporting on the independent audits of the First 5 county commissions. HSC section 130151(b) specifies the scope of the independent audits. In accordance with HSC section 130151(b), 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. This guide is updated as necessary by a committee composed of representatives from SCO, the First 5 California Commission, and the county commissions.

Independent Audit Report Requirements

The Health and Safety Code requires the auditors for county commissions, or county commissions themselves, to submit an independent audit report to both SCO and the First 5 California Commission by November 1 of each year.³

³The 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.”

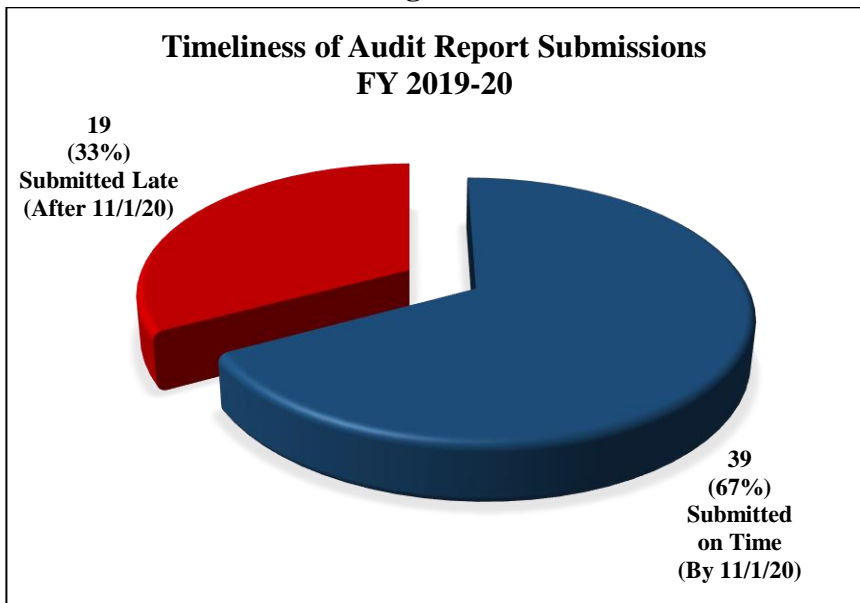
Results of Oversight Activities

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 2019-20, 39 (67%) county commission audit reports were submitted by the required deadline, while 19 (33%) were submitted after the required deadline. Of the 19 reports submitted after the required deadline, 10 (17%) were submitted within 30 days of the deadline, while the remaining nine audit reports (16%) were submitted more than 30 days late.

Three of the nine county commissions stated that their reports were more than 30 days late due to the reporting requirements in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. These county commissions experienced delays in obtaining the required financial documentation from the agencies that manage pension benefits. Five of the nine county commissions submitted their reports more than 30 days late due to work restrictions related to COVID-19. The remaining county commission submitted its report more than 30 days late due to a report submission-date oversight.

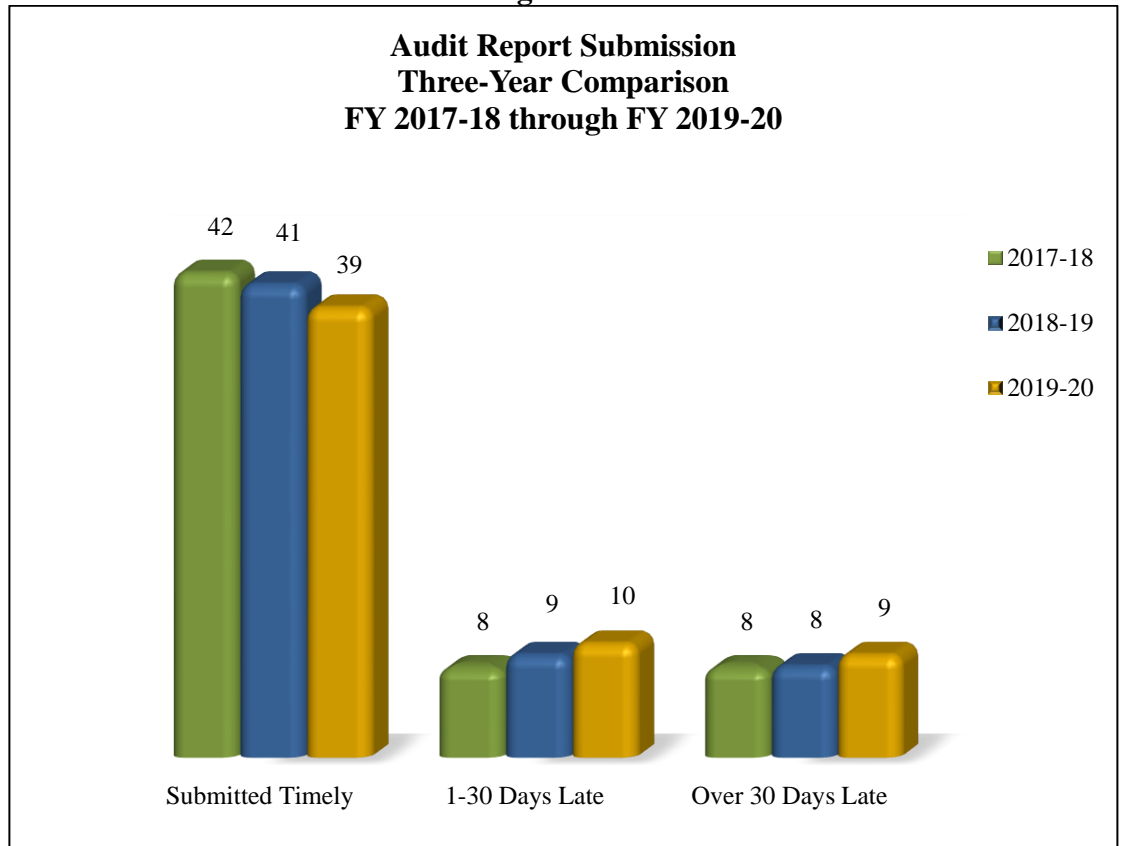
Figure 1



Compared with the FY 2018-19 and FY 2017-18 audit review cycles, in FY 2019-20 there was a decrease in audit reports submitted on time (39). During the FY 2018-19 review cycle, 41 audit reports were submitted on time. For the FY 2017-18 review cycle, 42 audit reports were submitted on time. For the

FY 2019-20 review cycle, nine 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**

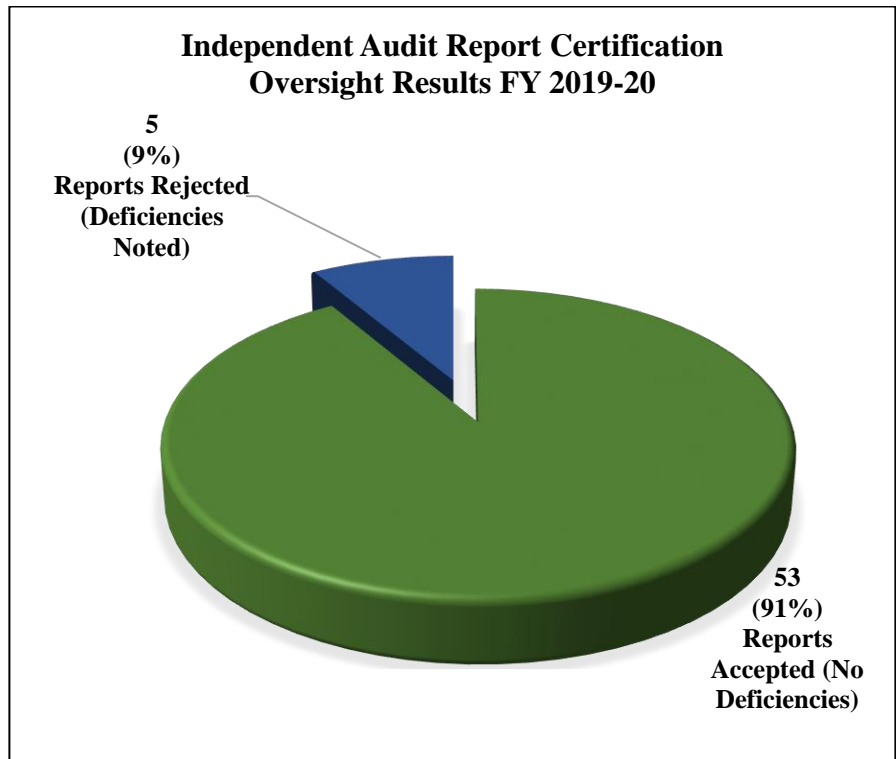
In accordance with HSC section 130151, SCO reviews and certifies the annual independent audit reports issued by the auditors for each county commission for compliance with applicable auditing standards and the audit guidelines set forth in *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* (the First 5 Audit Guide). This report summarizes the instances of non-compliance identified within the independent auditors’ reports.

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 the standards applicable to financial audits set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States. The desk review checklist is updated annually, in response to changes in auditing standards and program requirements.

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 2019-20 county commission audits, five 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 or deficiencies noted during our review, and the criteria used to determine noncompliance.

Figure 3



Notable Audit Report Deficiencies

We identified five deficiencies in five FY 2019-20 rejected reports. The majority of the deficiencies pertained to the Independent Auditor’s Report. Specifically, the report did not include the complete statement that the audit was conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 date references to a separate report;

- The Notes to the Financial Statements disclosures on other post-employment benefits (OPEB) plan did not include identification of the plan administrator and the type of OPEB plan; and
- The OPEB disclosures included in the report were outdated, and were not in compliance with GASB Statement No. 75 requirements.

Comparison of Independent Audit Report Deficiencies by Fiscal Year

During this review cycle (FY 2019-20), we found five independent audit report deficiencies (see Appendix A-1 for detailed category breakdown). This represents a decrease from the prior year; there were 13 deficiencies in FY 2018-19. In FY 2017-18, we identified nine deficiencies. Of the five independent audit report deficiencies identified for FY 2019-20, three (60%) were 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 set forth in *Government Auditing Standards*, issued by the Comptroller General of the United States. Two of the five county commissions’ independent auditors’ reports included deficiencies related to the Notes to the Financial Statements.

During this review cycle, SCO did not identify any independent audit reports that contained recurring deficiencies previously identified during the FY 2018-19 review cycle. For the FY 2018-19 and FY 2017-18 review cycles there were no recurring audit report deficiencies.

Figure 4 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.

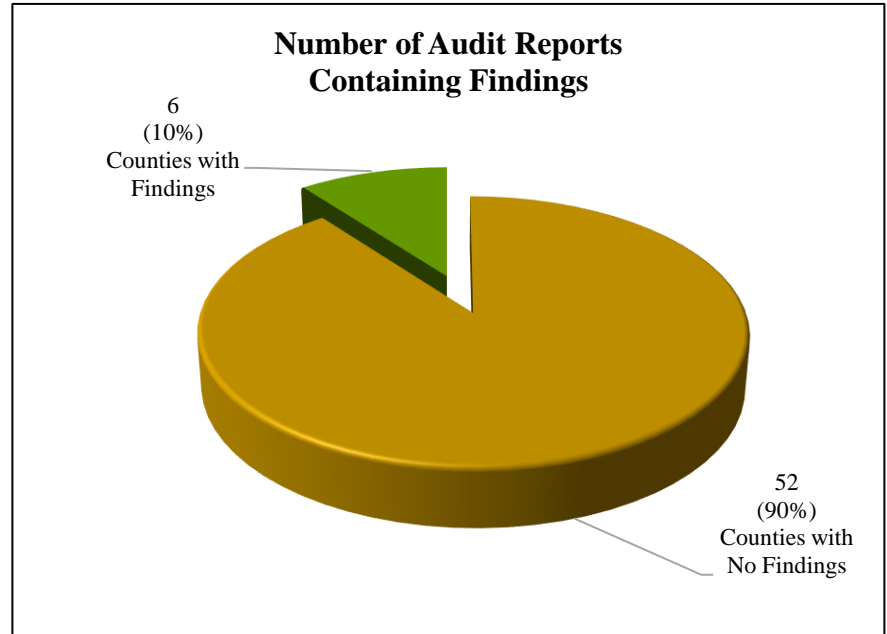
Figure 4

Independent Audit Report Deficiencies – Comparison by Fiscal Year			
Category	Number of Occurrences		
	FY 2019-20	FY 2018-19	FY 2017-18
Independent Auditor’s Report	3	1	1
Basic Financial Statements	0	0	1
Required Supplementary Information	0	0	3
Notes to the Financial Statements	2	7	2
Findings and Recommendations Section	0	4	1
State Compliance Report	0	1	0
Other	0	0	1
Total	5	13	9

Findings Reported by the Independent Auditors

The independent auditors for six of the 58 county commissions reported a total of eight audit findings (Figure 5): all eight categorized as internal control, and there were no state compliance audit findings reported for FY 2019-20.

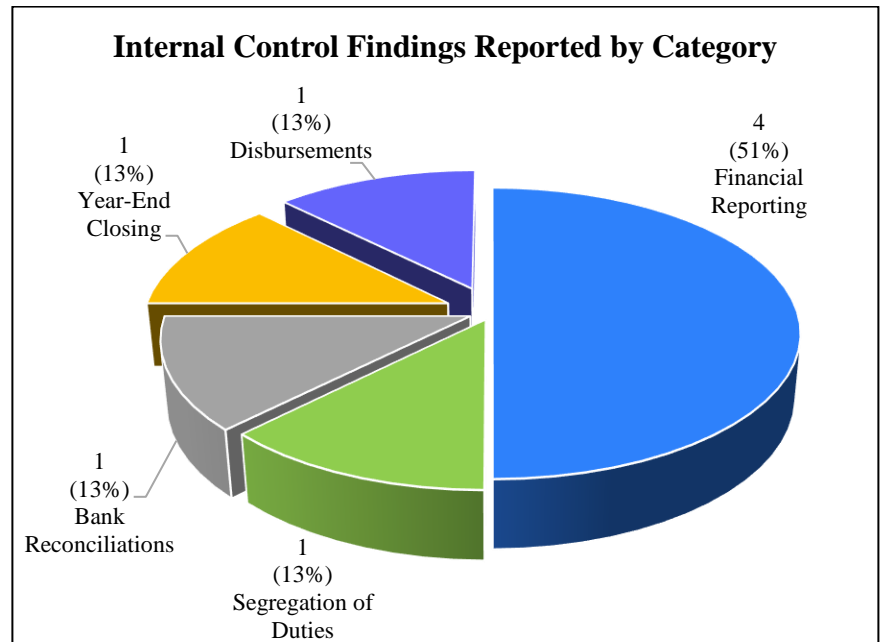
Figure 5



Breakdown of Reported Internal Control Findings

During the FY 2019-20 review cycle, we identified five functional areas in the eight internal control findings reported for FY 2019-20, as summarized in Figure 6.

Figure 6



Four of the eight internal control findings are in the financial reporting category, and one of the eight 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 2019-20. 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 this 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. However, the county auditor-controller is assisting the county commission to prepare 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 2018-19 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 2019-20, there were no state compliance findings. There were three state compliance findings for the FY 2018-19 review cycle and one for the FY 2017-18 review cycle. Fiscal-year comparison by year is summarized in Figure 7.

Figure 7

Comparative Detail of Audit Findings - State Compliance			
	<u>FY 2019-20</u>	<u>FY 2018-19</u>	<u>FY 2017-18</u>
Payroll	0	1	1
Policies and Procedures	0	1	0
Salaries and Benefits	0	1	0
Total Findings	<u>0</u>	<u>3</u>	<u>1</u>

***Qualified Opinion on
Governmental Activities***

For FY 2019-20, the independent auditor for one of the 58 county commissions issued a qualified opinion on the local commission's Governmental Activities. Specifically, the local commission did not comply with the reporting requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Except for the effects of the qualified opinion, the independent auditor issued unmodified opinions on the basic financial statements and the respective financial positions of the local commission's governmental activities. In FY 2018-19 and FY 2017-18, independent auditors for two local commissions issued qualified opinions. For FY 2018-19, one local commission failed to implement GASB Statement No. 68, and another local commission did not comply with the policies and practices specified in the California Health and Safety Code. For FY 2017-18, two local commissions failed to implement 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.

County commissions are required to submit responses to findings in their audit reports, pursuant to HSC section 130151(d) and *Government Auditing Standards* paragraphs 4.33 through 4.36. The SCO's 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 financial and compliance audit report, issued after the fiscal year with reported findings. Audit standards require that the independent auditor or auditor-controller determine the status of previously reported audit findings; and

- Onsite visits by SCO staff or telephone conferences between SCO staff and county commissions with audit findings.

For the FY 2019-20 audit review cycle, SCO performed follow-up of audit findings via telephone conference with two of the six county commissions whose independent audit reports contained findings. Our follow-up resulted in a review of 38% of the total reported findings for all six county commissions. The six county commissions provided corrective action plans and other documentation to substantiate resolution of their FY 2019-20 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

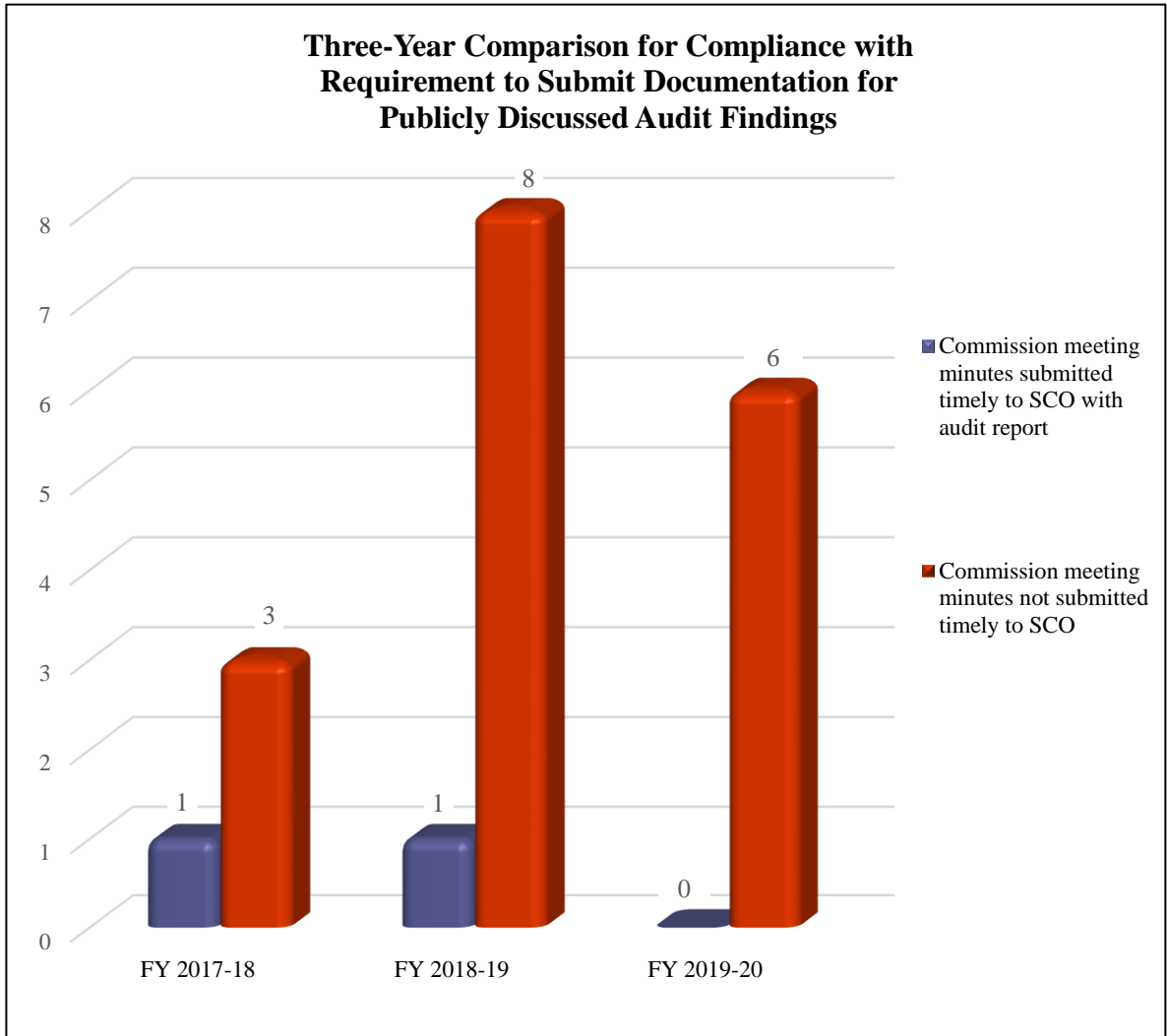
The county commissions are required to discuss their audit findings in a public hearing, and submit to the Controller a response to the audit findings. Specifically, HSC section 130151(d) states, in part, that:

...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 13 review cycles, multiple county commissions failed to submit the required documentation until requested to do so by SCO.

For FY 2019-20, none of the six county commissions whose independent audits contained findings submitted public discussion-related documentation to the SCO within two weeks of the public hearing (Figure 8). Upon request, all six county commissions submitted the required documentation. Based on our review of the documentation submitted, all six county commissions with audit findings held public hearings discussing the findings and related corrective action plans as required by HSC section 130151(d).

Figure 8



Appendix A-1
Summary of Independent Audit Report Deficiencies
Fiscal Year 2019-20

Independent Auditor's Report on the Financial Statements

The report did not include the reference to *Government Auditing Standards* 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 *Government Auditing Standard*, issued by the Comptroller General of the United States. 2

The report contains an inaccurate or inconsistent reference to a separate report. 1

Notes to the Financial Statements

The Notes to the Financial Statements on Other Post-Employment Benefit (OPEB) plan is not in compliance with GASB Statement Number 75. An actuarial valuation or valuation performed by alternative method was not performed as required every two years. 1

The Notes to the Financial Statements did not identify the plan administrator or identify the OPEB plan as single-employer, agent, cost-sharing, or multi-employer. 1

Total 5

Appendix A-2

Summary of Independent Audit Report Deficiencies Three-Year Comparison

Description of Audit Report Deficiency	Number of Occurrences		
	FY 2017-18	FY 2018-19	FY 2019-20
<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.	0	0	2
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	1	0
The report contains an inaccurate or inconsistent reference to a separate report.	1	0	1
<u>Basic Financial Statements</u>			
The Governmental Statement of Revenues, Expenditures, and Changes in Fund Balance was not presented properly.	1	0	0
<u>Notes to the Financial Statements</u>			
The Notes to the Financial Statements on Other Post-Employment Benefit (OPEB) plan is not in compliance with GASB 75. An actuarial valuation or valuation performed by alternative method was not performed as required every two years.	0	0	1
The Notes to the Financial Statements did not identify the plan administrator or identify the OPEB plan as single-employer, agent, cost-sharing, or multi-employer.	0	0	1
OPEB note did not include the OPEB plan benefit terms.	0	1	0
The Notes to the Financial Statements did not include the number of employees covered by the benefit terms of the OPEB plan.	1	4	0
The Notes to the 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.	1	0	0
The Notes to the Financial Statements did not disclose the fiduciary net position of the OPEB plan.	0	1	0
The Notes to the Financial Statements did not include the schedule of changes in the OPEB liability.	0	1	0

Appendix A-2 (continued)

Description of Audit Report Deficiency	Number of Occurrences		
	FY 2017-18	FY 2018-19	FY 2019-20
<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	0	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	2	0	0
<u>State Compliance Report</u>			
The list of required audit procedures reported in the State Compliance Report was incomplete.	0	1	0
<u>Findings and Recommendations</u>			
The audit finding did not include the criteria.	0	1	0
The audit finding did not include the recommendation.	0	2	0
The audit finding was not coded with a reference number.	0	1	0
The Schedule of Prior Audit Findings contained inaccurate or inconsistent reference to the current-year audit finding.	1	0	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.	1	0	0
Total	9	13	5

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