

ANNUAL REPORT TO THE FIRST 5 CALIFORNIA COMMISSION

RESULTS OF AUDIT OVERSIGHT OF COUNTY COMMISSIONS

For the Period of July 1, 2020, through June 30, 2021



BETTY T. YEE
California State Controller

November 2022



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California State Controller

November 1, 2022

Jackie Thu-Huong Wong, Executive Director
First 5 California Commission
2389 Gateway Oaks Drive, Suite 260
Sacramento, CA 95833

Dear Ms. Wong:

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 2020-21. 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/lis

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 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) 2020-21 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 91 % in FY 2019-20 and 81% in FY 2018-19.
- Of the 58 counties, 44 (76%) submitted the required audit reports by the November 1 deadline. In comparison, 67% of the audit reports in FY 2019-20 and 71% of the audit reports in FY 2018-19 were submitted by the deadline.

The independent auditors identified a total of eight audit findings at seven county commissions; seven of the audit findings were categorized as internal control and one was categorized as state compliance. In comparison, six of the FY 2019-2020 audit reports contained a total of eight audit findings, all eight were internal control audit findings. There were no state compliance audit findings. Nine of the FY 2018-19 audit reports contained a total of 14 audit findings (11 internal control and three state compliance).

We noted that the independent auditor for one of the 58 county commissions issued a qualified opinion on the local commission's Governmental Activities.¹ The local commission did not comply with Governmental Activities reporting requirements. During the review cycle for FY 2019-20, one local commission's independent auditor issued a qualified opinion. In FY 2018-19, the independent auditor for one local commission issued a qualified opinion.

For FY 2020-21, SCO did not recommend withholding funding allocations from any commission for failure to correct—or provide a viable plan to correct—audit findings.

¹ An 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

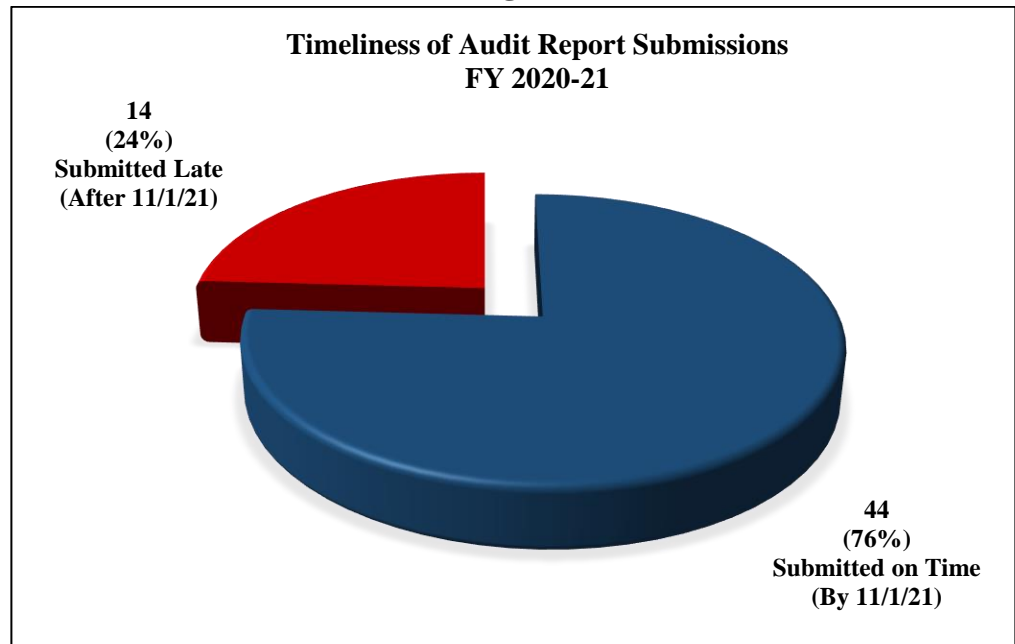
HSC section 130151(c) requires the auditors for county commissions, or county commissions themselves, to submit an independent audit report to both SCO and the First 5 California Commission. Pursuant to HSC section 130150(a), the audit reports are due by November 1 of each year.

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. During the FY 2020-21 review cycle, 44 (or 76%) of 58 county commission audit reports were submitted by the required deadline, and 14 (or 24%) were submitted after the required deadline. The timeliness of audit report submissions is summarized in Figure 1.

Figure 1



Of the 14 reports submitted after the required deadline, seven (or 12%) were submitted within 30 days of the deadline. The remaining seven (or 12%) audit reports were submitted more than 30 days late for the following reasons:

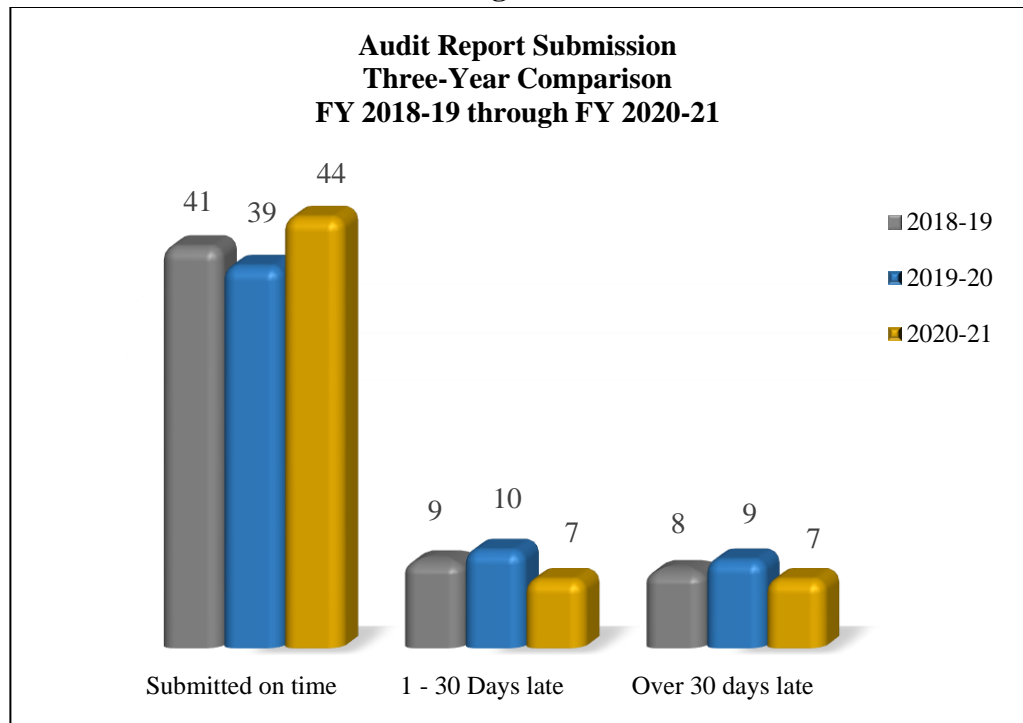
- Delayed financial statements – One county commission was unable to provide timely financial statements because the county auditor controller's office was late in posting FY 2020-21 beginning balances for the local commission's account.
- Reporting requirements – Three county commissions experienced delays in obtaining financial documentation, required by Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, from the agencies that manage their pension benefits.

- Staffing shortages – One county commission’s report was late because the local commission’s independent auditor did not have staff available to conduct the audit.
- Human error – The remaining two county commissions submitted their reports late because they overlooked the report submission date.

During the FY 2020-21 audit review cycle, 44 reports were submitted on time. This represents an increase from FY 2019-20 and FY 2018-19. During the FY 2019-20 review cycle, 39 audit reports were submitted on time; and during the FY 2018-19 review cycle, 41 audit reports were submitted on time.

For the FY 2020-21 review cycle, seven 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 that we found within the independent auditors’ reports.

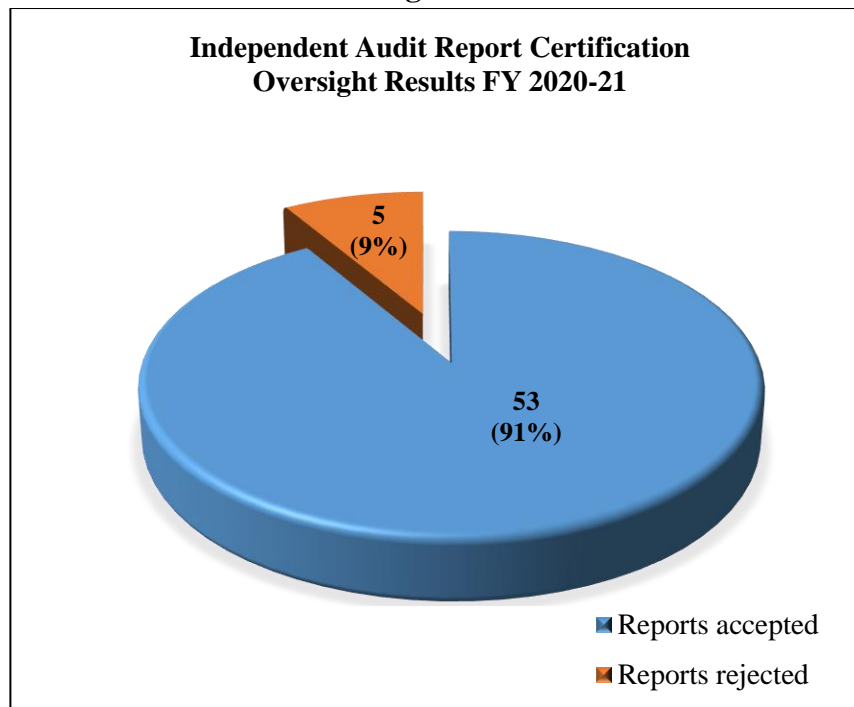
To facilitate the consistent review and certification of each audit report, SCO created a comprehensive desk review checklist that details and categorizes the program requirements specified in the First 5 Audit Guide. The desk review checklist also includes the required components of an audit report 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 2020-21 county commission audits, we found that five of the 58 independent audit reports contained deficiencies (see Figure 3). 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***

During our review and certification cycle, we identified 12 deficiencies in five rejected reports. The majority of the deficiencies that we identified during our review pertained to the Independent Auditor's Report and the Finding and Recommendations sections of the audit report. Specifically, the Independent Auditor's Report did not identify the required supplementary information or the schedules that pertain to the Supplementary Information section; and the financial statement findings did not include the recommendation, views of responsible officials, or corrective action plan.

We also identified the following notable deficiencies:

- The Notes to the Financial Statements on other post-employment benefit plans (OPEBs) were outdated and did not comply with the requirements of GASB Statement No. 75.
- The report did not include a schedule of the entity's defined benefit OPEB liability.
- The Report on Internal Control Over Financial Reporting and on Compliance and Other Matters did not include a statement regarding test results.
- The Report on State Compliance did not include the correct number of audit procedures.

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

During the FY 2020-21 review cycle, we found 12 independent audit report deficiencies. This represents an increase from the prior year; there were five deficiencies in FY 2019-20. In FY 2018-19, we identified 13 deficiencies.

Of the 12 independent audit report deficiencies identified for FY 2020-21, ten (83%) 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. The other two deficiencies were due to an incorrect number of required audit procedures being listed in the Report on State Compliance.

During this review cycle, SCO identified one independent audit report that contained a recurring deficiency previously identified during the FY 2019-20 review cycle. For the FY 2019-20 and FY 2018-19 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.

The Appendix provides additional detail for each category for the three audit fiscal years.

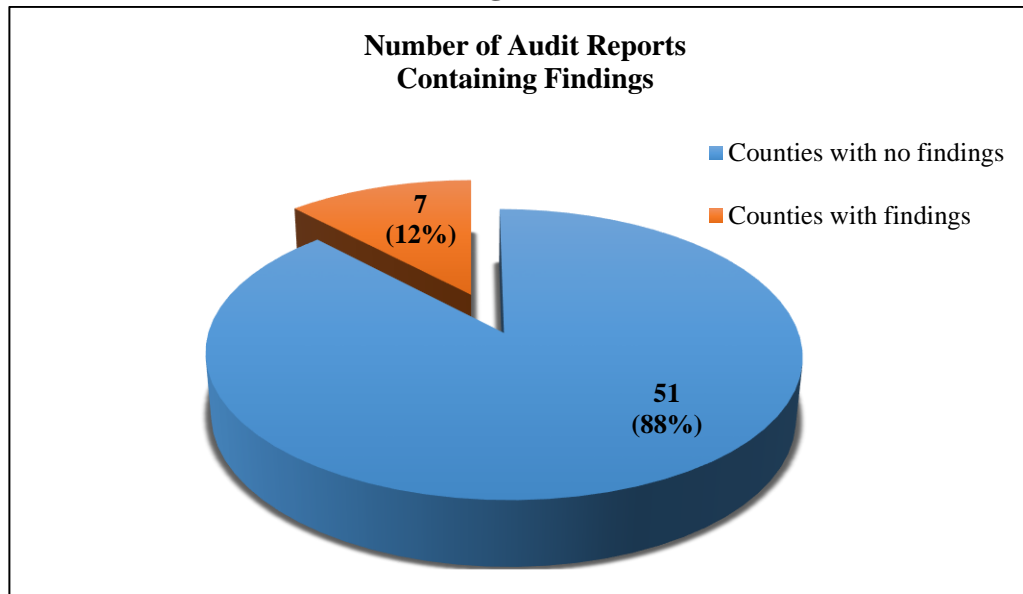
Figure 4

Independent Audit Report Deficiencies – Comparison by Fiscal Year			
Category	Number of Occurrences		
	FY 2020-21	FY 2019-20	FY 2018-19
Findings and Recommendations Section	3	0	4
Independent Auditor’s Report	3	3	1
Notes to the Financial Statements	2	2	7
Report on State Compliance	2	0	1
Government Auditing Standards Report	1	0	0
Required Supplementary Information	1	0	0
Total	12	5	13

Findings Reported by the Independent Auditors

The independent auditors for seven of the 58 county commissions reported a total of eight audit findings (see Figure 5). Seven audit findings were categorized as internal control, and one was categorized as state compliance.

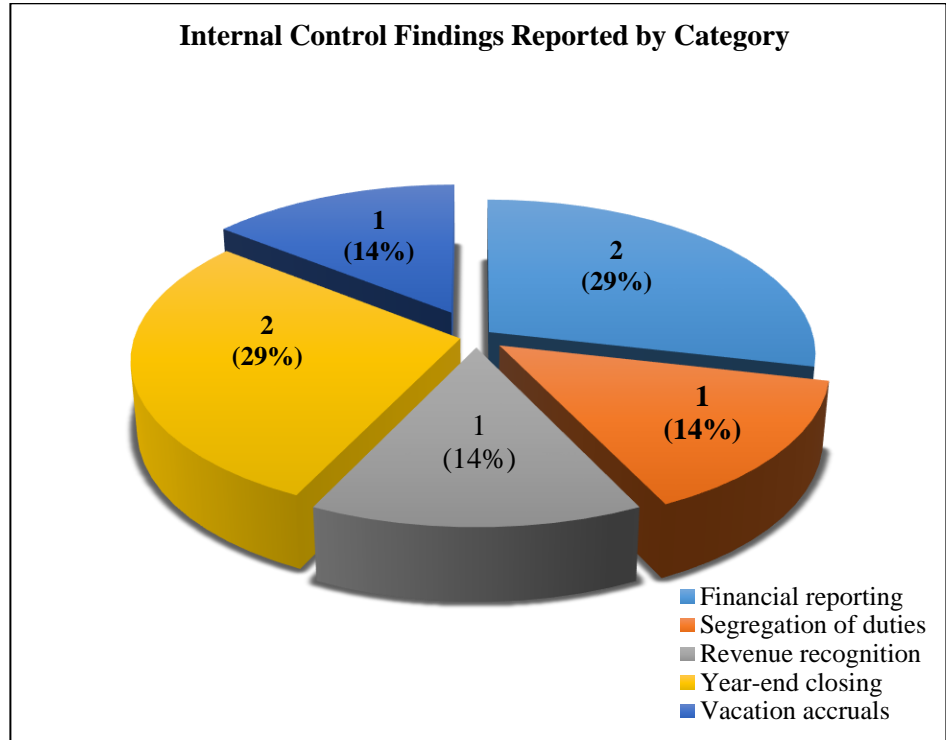
Figure 5



**Breakdown of
Reported Internal
Control Findings**

During the FY 2020-21 review cycle, we identified five functional areas within the seven internal control findings that were reported, as summarized in Figure 6.

Figure 6



Two of the seven internal control findings are in the financial reporting category. The findings are related to a recurring situation that is not readily corrected in one reporting cycle: specifically, the county commissions’ reliance on their independent auditors 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 2020-21. These findings for the county commissions’ reports indicate that the commissions do not find it feasible to hire additional staff, or to hire additional independent auditors to prepare financial statements and/or accompanying notes.

Based on our follow-up of these audit findings, our review of the corrective action plans included in the commission meeting minutes, and the county commissions’ responses to the audit findings, the county commissions have found it cost-prohibitive to hire staff or retain public accountants to prepare their financial

statements. However, the county auditor-controllers are assisting the county commissions to prepare the financial statements and/or accompanying notes.

Our review of the county commissions’ board meeting minutes indicated that the county commissions apprised their governing commissions 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 2020-21 is a result of the county commissions’ reliance on their auditors to prepare financial statements and accompanying notes.

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

For FY 2020-21, there was one state compliance finding. There were no state compliance findings for the FY 2019-20 review cycle; there were three for the FY 2018-19 review cycle. Figure 7 presents a year-by-year comparison.

Figure 7

Comparative Detail of Audit Findings – State Compliance			
Audit Findings	FY 2020-21	FY 2019-20	FY 2018-19
Administrative costs	1	0	1
Payroll	0	0	1
Salaries and benefits	0	0	1
Total Findings	1	0	3

***Qualified Opinion on
Governmental Activities***

For FY 2020-21, 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 for the local commission issued an unmodified opinion on the basic financial statements and the respective financial positions of the local commission’s governmental activities.

For FY 2019-20, the independent auditor for one local commission issued a qualified opinion for noncompliance with the reporting requirements of GASB Statement No. 68. For FY 2018-19, independent auditors for two local commissions issued qualified opinions; one was for the local commission’s failure to implement GASB Statement No. 68, and the other was for another local commission’s failure to comply with the policies and practices specified in Health and Safety Code.

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 members or telephone conferences between SCO staff members and county commissions with audit findings.

For the FY 2020-21 audit review cycle, SCO performed follow-up of audit findings via telephone conference with four of the seven county commissions whose independent audit reports contained findings. Our follow-up resulted in a review of 50% of the total reported findings for all seven county commissions. These county commissions provided corrective action plans and other documentation to substantiate resolution of their FY 2020-21 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 commissions for failure to correct or to provide a viable plan to correct audit findings.

Compliance with Requirement for Public Discussion of Reported Audit Findings

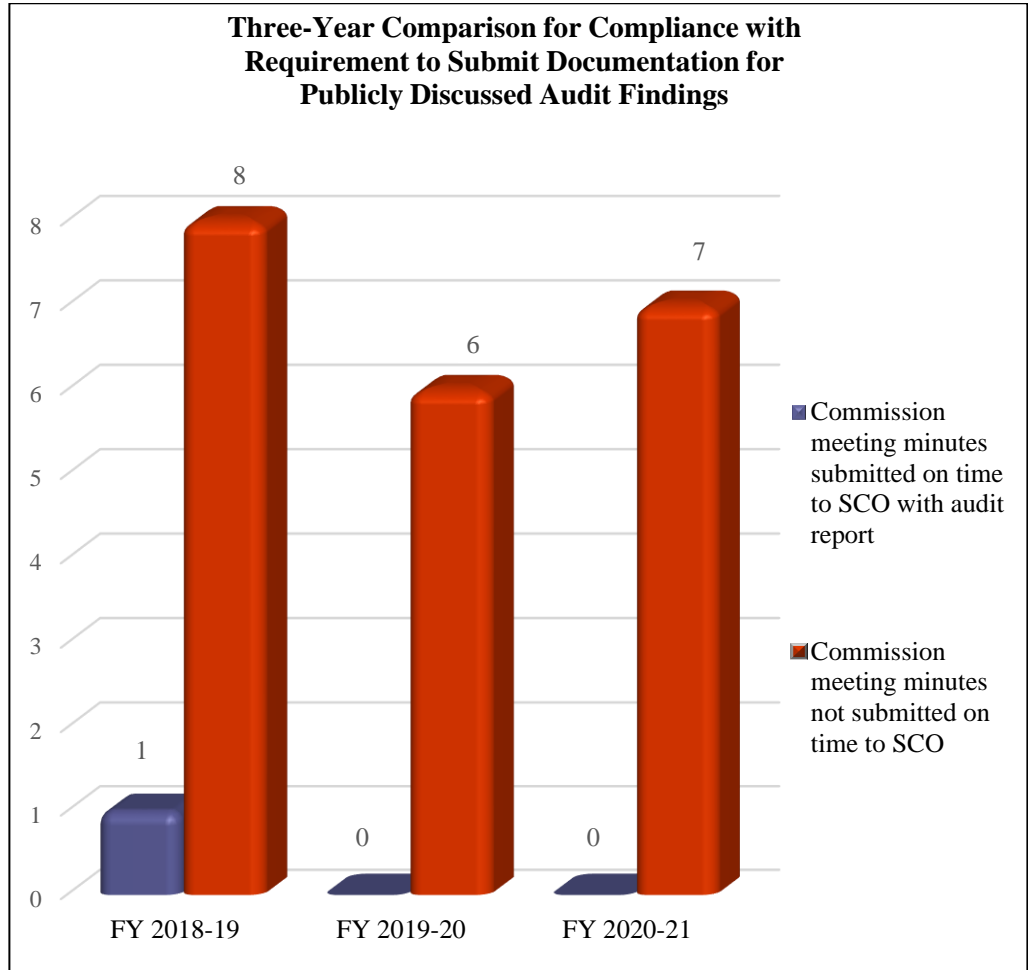
The county commissions are required to discuss the audit findings in a public hearing, and submit their responses to the audit findings to SCO. HSC section 130151(d) states, in part:

. . . 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 documentation for commission meeting agenda items) of public discussion of audit findings and any related corrective action plans with their independent audit reports. However, for the last 14 review cycles, multiple county commissions have failed to submit the required documentation until they were requested to do so by SCO.

For FY 2020-21, none of the seven county commissions whose independent audits contained findings submitted public discussion-related documentation to the SCO with their audit reports (see Figure 8). Upon request, all seven county commissions submitted the required documentation. Based on our review of the documentation, all seven 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

Summary of Independent Audit Report Deficiencies (Three-Year Comparison)

Description of Audit Report Deficiency	Number of Occurrences		
	FY 2018-19	FY 2019-20	FY 2020-21
<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	2	0
Auditor's report did not include all of the elements in the required supplementary information (RSI) section, and included erroneous information.	1	0	2
Auditor's report did not specifically identify the supplementary information and the schedules that pertain to the section.	0	0	1
Auditor's report contains an inaccurate or inconsistent reference to a separate report.	0	1	0
<u>Notes to the Financial Statements</u>			
The Notes to the Financial Statements on Other Postemployment Benefit (OPEB) plan is not in compliance with GASB Statement No. 75. An allocation of benefits or actuarial valuation or valuation performed by alternative method was not performed as required every two years.	0	1	1
The Notes to the Financial Statements did not identify the plan administrator and identification of the OPEB plan as single-employer, agent, cost-sharing, or multi-employer.	0	1	0
The Notes to the Financial Statements did not include the OPEB plan benefit terms.	1	0	0
The Notes to the Financial Statements did not include the number of employees covered by the benefit terms of the OPEB plan.	4	0	0
The Notes to the Financial Statements did not disclose the fiduciary net position of the OPEB plan.	1	0	0
The Notes to the Financial Statements did not include the schedule of changes in the OPEB liability.	1	0	0
The Program Evaluation note disclosed total amount spent on program evaluations which did not agree to the sum of individual amounts disclosed in the note.	0	0	1

Appendix (continued)

Description of Audit Report Deficiency	Number of Occurrences		
	FY 2018-19	FY 2019-20	FY 2020-21
<u>Required Supplementary Information</u>			
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	0	1
<u>Government Auditing Standards Report</u>			
The Report on Internal Control Over Financial Reporting and on Compliance and Other Matters did not include the statement that identifies whether the results of tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.	0	0	1
<u>Report on State Compliance</u>			
The list of required audit procedures reported in the Report on State Compliance was incomplete and/or inaccurate.	1	0	2
<u>Findings and Recommendations</u>			
The audit finding did not include the criteria.	1	0	0
The audit finding did not include the recommendation.	2	0	1
Audit finding did not include the views of responsible officials.	0	0	1
Audit finding did not include the auditee’s corrective action plan.	0	0	1
The audit finding was not coded with a reference number.	1	0	0
Total	13	5	12

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