

**State Allocation Board
Assistant Executive Officer**

**SAB Audit Subcommittee:
Status of Implementation of Adopted Audit Policy & Procedures**

Background: The Board approved the “Audit Subcommittee Recommendations to State allocation Board” at its meeting of November 3, 2010. At the meeting of December 15, 2010, the Board accepted a report with the Audit Subcommittee’s “Implementation Plan for Adopted Audit Policy & Procedures.”

At the SAB meeting of September 28, 2011, the Board requested that the AEO provide an update on the status of implementing the SAB’s Audit Subcommittee recommendations.

In preparing this report four meetings were held with OPSC Senior Management, a meeting was held with 2 members of the SAB Audit Subcommittee’s Audit Workgroup, a meeting was held with a representative from the State Controller’s Office, a meeting was held with representatives of the Dept. of Finance, two reports on OPSC status were reviewed, and the draft School Facility Program Review Requirements document was reviewed and marked up with audit team staff in multiple meetings.

The following is a draft/work-in progress report on the status of implementation of the Audit Policy & Procedures recommendations. Recommendations are numbered per the original Board-approval document.

I. Scope and Type of Audits

- a. **Board-Adopted Recommendation:** Define scope of the audit as a compliance audit. Local Educational agencies (LEA’s) are audited to ensure they are in compliance with laws and regulations of the SFP program. Audit guide to be revised and updated annually.
 - i. Implementation Plan: The Audit Committee will write a new Audit Guide which will be reviewed annually and updated as needed. Draft regulations to memorialize this process.
 1. **Status:** Audit definition is in accordance with current regulations and procedures—no specific implementation was included in plan. *“Audit Guide” is in process of being updated by OPSC staff. Draft document has been reviewed. The Audit Guide is being re-structured as a “best practices” document or handbook—not as an Audit Guide.*
 2. **Outstanding Issues:** OPSC Audit Guide being restructured as “School Facility Program Review Requirements” document—does this meet the recommendation of the Audit Sub-Committee?
 3. **Follow up:** Need to consider review and potential input from Audit Subcommittee in rolling out the new handbook.

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- b. **Board-Adopted Recommendation:** Audits should be performed in accordance with Governmental Auditing Standards (GAS). Audits should commence within established timeframes.
- i. Implementation Plans: GAS policy to be included in new audit guide, memo to OPSC staff and training to be provided to staff. Audit timelines are per current regulations with policy to be included in the Audit Guide, training to be provided to staff, and process for tracking timelines developed.
 1. **Status:** *Audit timelines are in accordance with current regulations. Audit Guide is in process of being updated by OPSC staff, however, this guide is not referenced in regulation or statute and is therefore only considered advisory. Draft document is currently being reviewed internally. Other implementation plan items: memo and training are not complete. Process for tracking timelines is in place.*
 2. **Outstanding Issues:** The program compliance reviews and expenditure reviews by OPSC are not true audits. Therefore the GAS standards do not necessarily apply.
 3. **Follow up:** This issue needs to be communicated to the Audit Subcommittee.
- c. **Board-Adopted Recommendation:** Audits should be conducted by an independent entity outside of OPSC.
- i. Implementation Plan: consider other state agencies which could take over audits, third party to conduct with an MOU, review of requirements in law.
 1. **Status:** *OPSC has been in discussion with State Controller's Office for them to assume OPSC's external fiscal audit function. Due to budgetary constraints, OPSC is unable to provide funding to pay for State Controller's Office to assume audit function for this fiscal year.*
 2. **Outstanding Issues:** External fiscal audits only being considered for transfer to independent entity. All other OPSC audits—compliance reviews, expenditure reviews, etc. are still to be done in-house. This may not be consistent with the Audit Subcommittee recommendations.
 3. **Follow up:** This issue needs to be communicated to the Audit Subcommittee. Also, need to confirm whether the external audit function will be outsourced in a future year.

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- d. **Board-Adopted Recommendation(s):** (i)LEA's should be audited subject to the Audit Guide and regulations effective at the time the application is deemed completed and accepted by the OPSC. (ii)A complete application checklist will be included in the SFP Handbook. (i)A notification will be given to the LEA's upon acceptance of their application detailing which regulations and Audit Guide the project will be subject to at the time of Audit. (iii)OPSC shall post electronic archive of all previous and current regulations and Audit Guides for district and public access. (iv)Interim process needed to clarify applicable laws, regs, and Audit Guides until a formal process is developed.
- i. Implementation Plan: Prepare form letter to districts re notification of regulations and audit guide in effect. Provide training to staff.
 1. **Status:** *At the time of acceptance of a Local Education Agency (LEA) application for funding, the OPSC is notifying the LEA of which regulations they have been accepted under. **Procedure now in effect.***
 - ii. Implementation Plan: Application checklist to be prepared by "Audit Committee," approved by Board, and included in the SFP Handbook.
 1. **Status:** *Checklist has not been prepared, however, the new handbook does contain checklists of items required at time of OPSC reviews. Audit Committee has not met.*
 2. **Follow up:** Confirm whether an Audit Committee will be formed, per Implementation recommendations.
 - iii. Implementation Plan: Post Audit Guides and regulations on OPSC website—OPSC will prepare tab on website.
 1. **Status:** ***OPSC has posted all past and present regulations on its website for reference. Task complete.***
 2. **Outstanding Issues:** OPSC indicates that to avoid confusion, past audit guides will not be posted and the Audit Guide will be replaced by "School Facility Program Review Requirements" document.
 - iv. Implementation Plan: Interim process developed by Audit Committee with Board action to create Audit Committee to draft new Audit Guide—and develop formal process.
 1. **Status:** *No action taken to establish Audit Committee.*
 2. **Follow up:** Confirm whether an Audit Committee will be formed, per Implementation recommendations.

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- e. **Board-Adopted Recommendation:** SFP Handbook and Audit Guide should complement each other and incorporate the compliance requirements in the handbook that LEA's will be audited on and allow in conformance with Audit Guide requirements.
 - i. Implementation Plan: Audit Committee to ensure coordination/complimentary documents Handbook & Audit Guide. OPSC staff training on compliances audits and variations in programs.
 - 1. **Status:** *OPSC has prepared the "School Facility Program Review Requirements" document. No indication of changes to SFP Handbook at this time. No action taken to establish Audit Committee.*
 - 2. **Follow up:** Confirm whether Audit Committee will be formed. Confirm that OPSC staff is coordinating an update to the SFP Handbook to coordinate with the new "School Facility Program Review Requirements" document.

- f. **Board-Adopted Recommendation:** Audits should not be reopened. Additional audits may be conducted with evidence of fraud, misappropriation of funds or other illegal acts.
 - i. Implementation Plan: Insert policy in updated Audit Guide and provide training to staff. OPSC regulations provide current timelines for initiating audits. Provide direction to staff regarding not reopening audits and to close all re-opened audits.
 - 1. **Status:** *OPSC has indicated that this policy is being followed. No confirmation of direction to staff and training provided.*
 - 2. **Follow up:** Confirm direction to staff regarding policy.

II. Procedures on the Publishing and Findings of the Audits

- a. **Board-Adopted Recommendation:** Audits should only be published after the audit report is final and the LEA has provided a written report. Draft review of audit should be given to the LEA 30 days prior to publishing and the LEA should have 30 days to respond. Responses should be published in their entirety. Audit findings that are on appeal should also be noted with any published audit information.
 - i. Implementation Plan: "Insert" policy and establish a process in the Audit Guide and provide training to staff. Draft regulations to memorialize this process. Implement within 90 days.

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1. **Status:** *Implementation of this recommendation is that it pertains only to external financial audits. OPSC's intent is that external field audits would be delegated to an outside agency which would then be responsible for publishing audit reports. Currently no policy has been developed, no regulations drafted. No audits have been posted to the OPSC website ("published").*
2. **Outstanding issues:** OPSC has never "published" results of Program Compliance Reviews or Expenditure Reports. The process for acceptance of review findings by Districts includes a 30 day response period. The "publishing" of results may include an item to the State Allocation Board if the results of the review indicate an adjustment (positive or negative) in state funds.
3. **Follow up:** Confirm that external audit functions are still being considered, which may appropriately include a "publishing" element.

III. Process for Yearly Update and Communication to Districts regarding changes with Audit process

- a. **Board-Adopted Recommendation:** Create a standing audit committee that will do an annual review of the Audit Guide and create a process to address needed changes. The Audit Sub-Committee should be comprised of CDE, State Controller's Office, facility and fiscal LEA staff, independent auditor, OPSC staff or other appropriate staff.
 - i. Implementation Plan: SAB action needed to constitute a standing Audit Committee similar to Imp. Committee. Board will need to identify staff to the committee and develop a process for determining LEA reps. Policy and charge of the Audit Sub inserted in the new Audit Guide. Audit Committee to meet and draft new Audit Guide to memorialize audit policies adopted by the Board.
 1. **Status:** *No action taken to establish Audit Committee.*
 2. **Outstanding Issues:** Forming and staffing a committee as envisioned may present challenges with current budget constraints.
 3. **Follow up:** Confirm direction with Board, consider alternative scenario for input into process for updating program compliance review procedures.

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IV. Streamlining actions within Audit process

- a. **Board-Adopted Recommendation:** Draft an incremental program compliance verification and separate audit process. OPSC program staff will verify program compliance within 1 year at 2 distinct phases: at the time of SAB action on an Application for Funding and from the Date of Fund Release. The verifications made by OPSC Program staff will be limited to a number of items per project and should be selected based on a program-wide random sample. After the verification has been performed by OPSC Program staff or the one year expires, the project at both phases is deemed in compliance with the applicable certifications and those phases are no longer auditable. The review of the expenditure audits should remain a function of the project audit.
- i. **Implementation Plan:** Audit Committee will establish process and include within SFP Handbook and Audit Guide. Board review may be needed of incremental compliance one year after beginning. Regulations may be required to implement incremental review of compliance verification vs. separate audit process.
1. **Status:** *OPSC staff has not incorporated any new procedures regarding “program compliance” reviews within 1 year, this will require new regulations. In addition, OPSC has concerns regarding staffing requirements for incremental program compliance reviews. No Audit Committee has been formed, no new process identified. Incremental review of compliance verification has not been implemented.*
 2. **Outstanding Issues:** This was a key recommendation for the subcommittee, and the Board asked for staff to return with recommendations for required regulation changes. .
 3. **Follow up:** Confirm this direction and review possible incremental compliance verification process. What impact on workload, timing, etc.
- b. **Board-Adopted Recommendation:** Provide training to OPSC staff on (District) internal controls, cash management, and multi-fund accounting. This training is not to prepare OPSC to take an advisory role but to allow for a better working knowledge of administering the program.
- i. **Implementation Plan:** OPSC staff to work with LEA or auditor to create a training program. OPSC to conduct a “walk-thru” review of LEA cash management process. Insert policy and establish process in the new Audit Guide and provide training to staff.

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1. **Status:** *OPSC has indicated that if funding is available for training they will pursue training concerning LEA internal controls, cash management, and multi-fund accounting.*
 2. **Outstanding Issues:** Training of staff is ongoing, but specific training in this area is dependent on funds being available.
 3. **Follow up:** Confirm direction from Board, and request implementation funding.
- c. **Board-Adopted Recommendation:** OPSC staff to coordinate with CDE staff that maintains the CSAM (California School Account Manual) to assure that financial documentation for audits is an integrated part of the CSAM and doesn't impose additional accounting burdens on LEAs.
- i. **Implementation Plan:** OPSC staff will attend CDE SACS and CSAM meeting to ensure that the manuals are aligned and that OPSC is current and up to date on CDE SACS and CSAM processes. OPSC will continually work with the CDE staff to ensure this.
 1. **Status:** *OPSC staff have reviewed CSAM and have indicated that they can work with State Controller's Office and CDE regarding CSAM processes and requirements.*
 2. **Outstanding Issues:** OPSC anticipates that State Controller's Office would have this responsibility as the agency assuming the outside audit function.
 3. **Follow up:** Confirm that external audit functions by outside agency are still being considered.

V. Audit Appeals Process—item not adopted by Board.

VI. Reorder Index of OPSC Audit Guide.

- a. **Board-Adopted Recommendation:** The Audit Guide and the School Facility Program Handbook should both be coordinated and re-organized to provide clear guidelines to all LEA's. The Audit Guide should be updated annually. The coordination of the Audit Guide and the School Facility Program Handbook should be vetted through the SAB Implementation Committee.
 - i. Implement re-ordering of Audit Guide index at the standing Audit Committee. Establish in regulation the process for annually updating the audit guide and vetting new requirements through the Implementation Committee (mirror the EAAP process).
 1. **Status:** *No action to implement this recommendation.*