

State Allocation Board Audit Subcommittee Meeting October 9, 2012

Auditor Presentation

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Overview of Bond Audit Requirements

- California Constitution
- Education Code
- Public Contract Code
- Specific ballot measure
- Generally Accepted Government Auditing Standards (GAGAS)
 - GAO Performance Audit Standards

Agreed-Upon Procedures Engagement versus Performance Audit (with Opinion rendered)

- AUP can cover compliance but no opinion is rendered, commonly issued by some CPA firms but a concern of many ICOCs
- Performance audit renders an opinion and can cover effectiveness, economy, efficiency, internal control, compliance and other analysis
 - Effectiveness, economy and efficiency are outside of most CPAs expertise

Typical Bond Audit Tests

- Tests of financial amounts in fiscal year audited
- Internal control understanding, to include for example: organizational structure, project mgmt., budget monitoring, contracts, payments, deposit of cash, accounting methods and reporting
- Expenditure test, both of vendor and payroll warrants
- Contract letting, bid documents, change orders
- Interfund activity, including allowability
- Site walks to physically observe assets constructed

How A SFP Grant Audit Might Be Similarly Conducted To a Prop 39 Bond Audit

- Auditor needs to know the scope so that audit program steps and deliverable may be developed – important for SAB to communicate to the CPA and district communities
 - Test compliance with grant terms, all? Are some more or less important?
 - Deliverables need definition, for example: a stand alone report or an added component to existing bond or district audit report? Financial and performance audit? Limit to an expenditure audit or full scope audit? What type of assurance service is requested, AUP or opinion.

Suggestions On How To Coordinate The Audit Of SFP Grants With Prop 39 Bond Audit Work

- Audit are conducted annually, focus is on actual expenditures for the period under audit
- An audit of Fund 35 – full scope or only expenditures?
- Similarity of audit steps between Prop 39 and SFP grant could make it more efficient to conduct both simultaneously

Costs of Financial and Performance Audits

- Suggest a separate engagement letter contract between the auditor and district.
- Would the audit cost be allowable to charge the SFP grant?
- Requirements and scope will determine the cost – opinions are more expensive than agreed-upon procedures
 - Prop 39 audit costs vary depending on scope, anecdotally between \$5,000 to over \$75,000

Issues Of Conducting The SFP Audit Along With The Bond Audit

- Audit of 50-06 reporting versus annual expenditures
- Any special compliance requirements of SAB not covered by a Prop 39 audit? For example, matching funds, greater restrictions on expenditures allowed
- Audit coverage for districts that do not have a Prop 39 bond. But, the audits would be separate by nature unless the law was changed to audit the “construction program or projects”
- Timing might vary, as SFP often trails the expenditure of bond funds