

STATE ALLOCATION BOARD AUDIT SUB-COMMITTEE HEARING

Members:

Senator Alan Lowenthal, Chair

Scott Harvey, Department of General Services

Kathleen Moore, California Department of Education

AGENDA

1. Convene Meeting
2. Adopt the minutes from the State Allocation Board (SAB) Audit Sub-Committee Hearing on September 1, 2010 and approve the Audit Sub-Committee Working Group notes.
3. Present and Discuss Recommendations from the Audit Sub-Committee Working Group.
4. Discuss and provide direction to the Assistant Executive Officer for the November presentation of the recommendations.
5. Public Comment

Audit Working Group Recommendations

Below are the actions taken by the Audit Sub-Committee at September 1, 2010 meeting.
 The items in red are the additional recommendations from the September 27, 2010
 Audit Working Group Meeting :

I. SCOPE AND TYPE OF AUDITS

ISSUE	RECOMMENDATION	ACTION BY SUBCOMMITTEE
<p>a. Scope of the audit needs to be defined: the School Facility Program (SFP) was intended to be a "Grant and Go" program.</p>	<p>Define the scope of the audit as a compliance audit. Local educational agencies (LEA) are audited to ensure they are in compliance with laws and regulations of the SFP program. Audit Guide to be revised and updated annually.</p>	<p>Recommendation accepted by SAB Sub-Audit Committee at the September 1, 2010 meeting.</p>
<p>b. The audits performed should be consistent with audits that are performed by other state agencies.</p>	<p>Audits should be performed in accordance with Governmental Auditing Standards. Audits should commence within established time periods.</p>	<p>Recommendation accepted by SAB Sub-Audit Committee at the September 1, 2010 meeting.</p>
<p>c. Ensure objectivity and independence of the audit; audits should not be conducted by the same entity that issued the apportionments.</p>	<p>Audits should be conducted by an independent entity outside of the OPSC. Examples: State Controller's Office or Independent Auditors. Existing OPSC audit staff and/or resources would be transferred to the responsible entity.</p>	<p>Recommendation accepted by SAB Sub-Audit Committee at the September 1, 2010 meeting.</p>
<p>d. Program requirements at the time of application change over the time that an LEA submits their initial application and the time the project is audited.</p>	<p>LEAs should be audited subject to the Audit Guide and the regulations effective at the time the application is deemed complete and accepted by the OPSC. A complete application checklist will be included in the SFP Handbook. A notification will be given to the LEAs upon acceptance of their application detailing which regulations and Audit Guide the</p>	

	<p>project will be subject to at the time of Audit. The OPSC shall post electronically an archive of all previous and current regulations and Audit Guides for the district and the public to access. An interim process is needed to clarify applicable laws, regulations and the Audit Guides until a formal process is developed.</p>	
<p>e. The LEA should know the requirements for the audit at the time of application and ensure they are keeping the appropriate documentation to qualify</p>	<p>SFP Handbook and the Audit Guide should complement each other and incorporate the compliance requirements in the handbook that LEAs will be audited on and allow the audits to be audited to the Audit Guide requirements.</p>	<p>Recommendation accepted by SAB Sub-Audit Committee at the September 1, 2010 meeting</p>
<p>f. There is a concern that once an audit is closed out that OPSC has the authority to reopen the audit at any time and re-look at the expenditures.</p>	<p>Audits should not be re-opened. Additional audits may be conducted if there has been a legal finding of fraud, misappropriation of funds or other illegal acts.</p>	<p>Recommendation accepted by SAB Sub-Audit Committee at the September 1, 2010 meeting</p>

II. PROCEDURES ON THE PUBLISHING AND FINDINGS OF THE AUDITS

ISSUE	RECOMMENDATION	ACTION BY SUBCOMMITTEE
<p>a. In accordance with the Governor's Executive Order, audits are posted to the Accountability website.</p>	<p>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</p>	<p>Recommendation accepted by SAB Sub-Audit Committee at the September 1, 2010 meeting</p>

	should be published in their entirety. Audit findings that are on appeal should also be noted with any published audit information.	
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III. PROCESS FOR YEARLY UPDATE AND COMMUNICATION TO DISTRICTS REGARDING CHANGES WITH AUDIT PROCESS

ISSUE	RECOMMENDATION	ACTION BY SUBCOMMITTEE
a. Changes to the audit requirements are not effectively communicated to LEAs. A transparent process to revise the Audit Guide should be established that is relevant to the time of the audit.	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 committee should be comprised of California Department of Education (CDE), State Controller's Office, facility and fiscal LEA staff, independent auditor, OPSC staff or other appropriate staff.	Recommendation accepted by SAB Sub-Audit Committee at the September 1, 2010 meeting

IV. STREAMLINING ACTIONS WITHIN AUDIT PROCESS

ISSUE	RECOMMENDATION	ACTION BY SUBCOMMITTEE
a. Program requirements can change from the time a district submits an application to the time the project is audited.	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	

	<p>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.</p>	
<p>b. OPSC staff does not have a good understanding of the entire cash management process within an LEA.</p>	<p>Provide training to OPSC staff on internal controls, cash management and multi-fund accounting not to take an advisory role but to allow for a better working knowledge of administering the program.</p>	<p>Recommendation accepted by SAB Sub-Audit Committee at the September 1, 2010 meeting</p>
<p>c. Audit requirements related to financial accounting are not coordinated with the requirements of the California School Accounting Manual (CSAM) that affects all LEAs.</p>	<p>OPSC staff to coordinate with CDE staff that maintains the CSAM to assure that financial documentation for audits is an integrated part of the CSAM and does not impose additional accounting burdens on LEAs</p>	<p>Recommendation accepted by SAB Sub-Audit Committee at the September 1, 2010 meeting</p>

V. AUDIT APPEALS PROCESS

ISSUE	RECOMMENDATION	ACTION BY SUBCOMMITTEE
<p>a. Currently LEAs can appeal issues through the SAB. A process is needed to address audit</p>	<p>Create an Appeals panel as an SAB Sub-Committee to hear fiscally related appeals as an interim</p>	

<p>discrepancies that have a fiscal impact on the district and the State.</p>	<p>process while taking the necessary steps to move towards an independent process such as the Education Audit Appeals Panel. The SAB Sub-Committee would consist of representatives from the CDE, Department of Finance and the Legislature. The interim process would also allow districts to go before an Administrative Law Judge in cases where districts do not agree with the findings of the SAB Audit Appeals Sub-Committee and then ultimately before the full SAB.</p>	
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REORDER INDEX OF OPSC AUDIT GUIDE

ISSUE	RECOMMENDATION	ACTION BY SUBCOMMITTEE
<p>Audit Guide summarizes the audit requirements for each local educational agency.</p>	<p>The Audit Guide and the School Facility Program Handbook should both be coordinated and re-organized to provide clear guidelines to all LEAs. The coordination of the Audit Guide and the School Facility Program Handbook should be updated annually and vetted through the SAB Implementation Committee.</p>	

Audit Sub-Committee Hearing
Minutes from 09-01-10

State Allocation Board
Audit Sub-Committee Hearing
State Allocation Board – Subcommittee on Audits
Wednesday, September 1, 2010
State Capitol Room 112
1:30 p.m.

Members Present

Senator Lowenthal
Scott Harvey
Kathleen Moore

Sitting before the Sub-Committee members

Lisa Kaplan - Assistant Executive Office, State Allocation Board
Lettie Boggs - California Association School Business Officials
Cassandra Moore - State Controller's Office

Minutes

Mr. Lowenthal welcomed the group and went over the formation, scope and purpose of the Audit-Sub committee.

Thanked the Audit Working Group (AWG) for all their hard work.

The AWG members, Lettie and Cassandra, each made opening statements.

Scott Harvey announced he will be abstaining from voting and provided a letter from the director of the Department of General Services (DGS) which outlined the reasons for his actions. DGS is seeking alternatives for the audit process.

Lisa Kaplan provided an overview of who was invited to join the Audit Working Group and their roles in the group.

The charge of the group was to review:

Scope
Findings
Annual updates

The group looked into streamlining the current process and educating districts so they were aware of the time line and close out process.

Lettie Boggs acting as a representative for the audit working group stated that the group looked at responsibility, timelines and content. Topics and recommendations are interdependent.

Cassandra, with the State Controllers Office and member of the AWG stated that it is important not to put the chicken before the egg – when the SCO develops audit guides they look to legislation. Program compliance requirements are essential to have in a detailed format so the field auditor can explain the law and how it correlates to their findings.

The audit findings and the appeals process needs to be detailed so districts understand how to go about appealing audit findings.

Senator Lowenthal asked for public comment. No public comments were made.

The representatives from the AWG read through recommendation document.

Recommendation:	Sub-Committee and Working Group Comments and Questions/ Public Comments/ Directives:
I. Scope and Type of Audits	
a. Define the scope of the audit as a compliance audit. Local educational agencies (LEA) are audited to ensure they are in compliance with laws and regulations of the SFP program. Audit Guide to be revised and updated annually.	<u>Comments</u> Making sure state dollars are being wisely spent.
b. Audits should be performed in accordance with Governmental Auditing Standards (GAS). Audits should commence within established time periods.	<u>Questions</u> Kathleen Moore asked if there was a general time period in GAS? <u>Comments</u> Audit Working Group: Audits should begin in 2 years. If OPSC sends a district a notice to audit then timelines need to be followed. Timelines make audits timely and help district personnel understand when certain things will happen.

<p>c. Audits should be conducted by an independent entity outside of the OPSC. Examples: State Controller's office or Independent Auditors. Existing OPSC audit staff and/or resources would be transferred to responsible entity</p>	<p><u>Questions</u> Kathleen Moore asked if the audit work group discussed that an outside entity might not have the program knowledge? Answer: Yes, which led to the conversation on compliance vs. expenditure</p> <p><u>Comments</u> Who is checking on OPSC to see if they conducted their piece of the granting properly?</p>
<p>d. Review and audit should be a multi-part process: Develop a process to ensure that LEA's understand audit requirements. A subsequent audit and the time of fund release and a separate close-out audit would also be conducted upon project completion.</p>	<p><u>Questions</u> Kathleen Moore asked for clarification - if the recommendation is for an independent auditor but the program manual and guide will be produced by OPSC? Answer: Correct, OPSC will write the manual (which the Audit Working Group submitted a new table of contents for) and the independent auditor will make sure that the district and OPSC followed the laws and regulations of the SFP program.</p> <p><u>Comments</u> Audit Working Group: Using an independent auditor will insure that laws and regulations are followed and interpreted properly. For example auditors can not apply requirements in 2010 to a 2006 project. Please note the working group did not delineate what it would look like - but we did discuss it. Depending on who is performing the audit will depend on how this happens and when.</p> <p><u>Public Comments</u> Tom Duffy with Cash: Submitted letter on this issue. Believes if there is a clearly written guide/checklist the</p>

applicant/ district would eliminate a lot of missteps that have previously been identified. We hope the SAB, DGS, OPSC can create a program guide with a checklist that will allow districts to move forward without delay. Self certification process works.

Ana Falero: Agrees with a lot of what CASH outlined. What is being described here is less than what the formal process would be as described later in the recommendation. Our group does not support a hard audit

Kathleen Moore: CASH nor Ana Falero's organization supports a multi level audit - is that correct? Answer: Correct

Comments

Kathleen Moore - This seems to be a program issue and is part of the program review which needs be addressed there.

Audit Work Group - There is a significant miss-understanding in the way in which this item is written and the intent of the work group. The work group does not, nor did it intend to go against anything that public has shared. What the work group meant when it discussed an incremental audit is that there is already an audit interview, but it happens when project is done. If there are checklists, guides and/or requirements districts should know about them for audit purposes then they should be told in the beginning. This is moving the timeline not changing the process. Nor did we suggest an expansion of audit requirements.

<p>e. SFP Handbook and the Audit Guide should complement each other and incorporate the compliance requirements in the handbook that LEA's will be audited on and allow the audits to be audited to the Audit Guide requirements. The Audit Guide should reflect and be consistent with the SFP Program Handbook, which complies with statute, regulation and guidance governing the program.</p>	
<p>f. Audits should not be re-opened. Additional audits may be conducted if there has been a legal finding of fraud, misappropriation of funds or other illegal acts.</p>	<p><u>Comments</u></p> <p>Audit Work Group - Legal fraud finding should not be a finding. Suspicion of fraud should be used. The wording "legal fraud finding" leads to other requirements.</p> <p>Kathleen Moore: Is that general auditing standards that an audit is final? Answer: Yes, typically when the auditor issues the final report it is final unless there is an issue that has arisen that would cause another audit to happen.</p> <p>Senator Lowenthal: An audit can not be reopened on a random basis. Has this happened? Answer: This is based more on wording -- districts are seeing verbiage saying that the project is subject to re-audit at any time.</p> <p>Concern that this is clear in the report to the Board and that this is not currently a problem but clarifying verbiage.</p> <p>Lisa Kaplan: Has heard concern from districts that audits are closed, but OPSC is internally reviewing them and not communicating. Audits closed out could be potentially re-opened and there is no process for this and districts are unaware</p>

	<p>of why the audit was re-opened. There is not a clear process and procedure for this.</p> <p><u>Public Comment</u> Lyle Smoot: Concern with Suspicion of Fraud is put in this program. LAUSD has a lot of audits re-opened because OPSC is applying new audit standards to closed out audits. This is a big issue for districts.</p>
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Motion made by Kathleen Moore: Accept the scope and type of recommendations a-f and not change recommendation language in f; with the exception of d.

Motion passed 2-0-1.

Public Comments

Chris Ferguson with the Department of Finance (DOF): We support the creation of a K-12 audit guide with regular updates. Also, supports the creation a list of appropriate auditors – which would be certified for the SFP.

Comments

Senator Lowenthal: Your (DOF) recommendations are clear and should be added to the document. These are the types of recommendations the Board should be looking at.

Steve Harvey: Nothing is black and white, there is all these areas of gray. The bottom line is we must have clarity, communication and independence. Director is considering options to contract out. The Director of DGS appreciates the comments and recommendations of the audit working group and will take additional comments and recommendations from the public for consideration.

II. Procedures on the Publishing and Findings of the Audits

a. Audits should only be published after the audit report is final and the LEA as 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

Comments

Sounds reasonable and worth sending on to the SAB.

AWG: This is a new component for districts and to date only one audit has been published.

findings that are on appeal should also be noted with any published audit information.	
Motion made by Kathleen Moore: Moved the recommendation on Procedures on the Publishing and Findings of the Audits forward to the full Board.	
Motion passed 2-0-1.	
III. Process for Yearly Update and Communication to Districts Regarding Changes with Audit Process	
a. 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 committee should be comprised of California Department of Education (CDE), State Controller's Office (SCO), facility and fiscal LEA staff, independent auditor, OPSC staff or other appropriate staff.	<p><u>Comments</u> Kathleen Moore: Chris with DOF, is this what you were referring to earlier?</p> <p><u>Public Comments</u> Chris Ferguson with the DOF: Legislation is needed to enable the creation of an SFP audit guide. Legislation would be clear as to what is included in the guide and the scope - looking at transparency.</p> <p><u>Comments</u> Kathleen Moore: Get to a guide without having to have specific legislation. The recommendation does not go that far.</p> <p>Senator Lowenthal: I like the recommendation we have here, but we should note the statement from the DOF.</p> <p><u>Public Comments</u> Chris Ferguson: Recommend the sub-committee consider utilizing current infrastructure - there is a current work group with the addition of district representatives from the facility program to create the guide. Independent auditors provide input on documentation - don't believe that</p>

	<p>they should decide what is in or not in the audit guide.</p> <p>Mike Ricketts with the CA County of Superintendents Education Services Association and member of the working group: We need to be sensitive to when we say districts it includes all LEAs and counties that are subject to audits.</p>
<p>Motion made by Kathleen Moore: Moved the recommendation on Process for Yearly Update and Communication to Districts Regarding Changes with Audit Process to forward to the full Board.</p> <p>Motion passed 2-0-1.</p>	
<p>IV. Streamlining Actions within Audit Process</p>	
<p>a. Draft an incremental review and audit process: initial consultation with program staff and desk review done immediately after funds are released. Final audit done at the time of the Final Expenditure Report. Process should be collaboration between program staff and audit staff.</p>	<p><u>Comments</u></p> <p>Senator Lowenthal: Interrelated with 1D and these two need to be discussed as one package.</p> <p>Kathleen Moore: Suggest that we return to these two items and return them to the audit working group.</p> <p>AWG: Overriding concern is that the reviews be timely.</p> <p><u>Public Comment</u></p> <p>Andrea Sullivan with the County office of Ed Schools Consortium and member of the Audit Working Group: 1D and 4 send back to work group for continued discussion. For further flushing out the issue and clarifying recommendations. Sub-Committee thought this was a fantastic idea.</p> <p>Mike Ricketts: The working group was really looking at what can we do to</p>

	<p>make this clear at local and state level. Program function and an audit function. Committee focused on saying that at the beginning of a project there needs to be clarity, fund release – review with program manager or auditor to understand expectations.</p>
<p>b. Provide training to OPSC staff on internal controls, cash management and multi-fund accounting not to take an advisory role, but to allow for a better working knowledge of administering the program.</p>	<p><u>Comments</u> AWG: Training to OPSC staff - Concern expressed at that OPSC staff does not understand the entire auditing process. OPSC getting more involved in analyzing and giving advice regarding the general ledger which they know nothing about. Districts get funding from many places.</p> <p>Senator Lowenthal: Cross training – making sure employees understand the process but not necessarily provide guidance.</p> <p>AWG: Districts are doing a complex exercise meeting the state audit guidelines and SFP program.</p> <p><u>Public Comment</u> Chris Ferguson: We need to work with districts to understand their cash management process.</p>
<p>c. OPSC staff to coordinate with CDE staff that maintains the CSAM to assure that financial documentation for audits is an integrated part of the CSAM and does not impose additional accounting burdens on LEAs.</p>	<p><u>Comments</u> Lisa Kaplan: Easy way to explain this is one tracking number or one document to track not multiply documents.</p>
<p>Motion made by Kathleen Moore: Moved the recommendation for Streamlining Actions within Audit Process for b and c, but asked the workgroup to flush out 1D and 4A.</p>	

Motion passed 2-0-1.

Direction - The Sub-Committee recommends the Lisa Kaplan, Assistant Executive Officer talk with the Chair of the SAB to make sure this item is included in the November 3rd Board meeting.

V. Audit Appeals Process

a. Create an Appeals panel as an SAB sub-committee to hear fiscally relate appeals. Sub-Committee to consist of representatives from the CDE, Department of Finance, and the Legislature. Sub-Committee to determine appropriate process and timeline. Consider establishing a more formal appeals structure modeled after the Education Audit Appeals Panel formal process is, in the future the sub-committee approach is insufficient.

Comments

Steve Harvey: Level of discussion or what the working group discussed in regards to conflict - because earlier you talked an independent audit because OPSC has their hands in the audit. The SAB has their hands in the process as well. So where do you see there is conflict in certain areas and not the other.

Lettie Boggs: Level of detachment at the Board from the everyday process. We did talk about this.

AWG: We did discuss creating a sub-committee to deal with conflict - given the timeline for the working group this is what we came up with.

Lisa Kaplan: If an appeal was filled with OPSC then OPSC would come up with a determination. The determination would go to the appeals sub-committee for the district and OPSC to state their positions. If an agreement was reached it would go to the full board, if not the appeal would be sent out to an ALJ for an official determination. The outside entity would make the decision on the disagreement and the Board would confirm or disagree with the decision. Noting the Directors letter and the AG's letter the final determinate on appeals is the SAB. This is if the OPSC

	<p>remains in control of audits, but this could be modified if another entity took over, but there needs to be some official appeals process outlined.</p> <p><u>Public Comment</u> Chris Ferguson: The DOF would support the Education Audit Appeals panel be the responsible entity for handling audit appeals. Legislation would be required, but the DOF believes that this is the appropriate route because the entity is place and would be capable of reviewing these audits. Plus, school districts are already familiar with it.</p> <p>Tom Duffy: From reading the recommendation - it is different from what Lisa described. First the sub-committee would be the appellant body and create a process. The idea of having a sub-committee may distill what goes to the Board and make the process more efficient. Lisa talked about an agreement at the sub-committee level then to the board or an outside body. Appears to be 3 concepts and this sub-committee may want to send this one back to the Audit working group to have more discussion.</p> <p><u>Comments</u> Senator Lowethal agreed with Tom Duffy's comments.</p> <p>Kathleen Moore: Liked the concept Chris Ferguson talked about - the existing body vs. creating one. Will need and an interim recommendation if the Board was to go with the DOF recommendation and seek a legislative</p>
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	<p>change to have the Education Audit Appeals panel be the responsible party for handling OPSC appeals.</p> <p>Steve Harvey: The DGS Director has recognized that there needs to be a formal appeals process and is working on one which will be published for the reasons stated here.</p> <p>Kathleen Moore: Is than an overall appeals process or an audit process?</p> <p>Steve Harvey: It is overall.</p>
<p>Motion: Recommendation was to send this item back to the work group with the other two.</p> <p>Motion passed 3-0.</p>	
<p>Reorder Index of OPSC Audit Guide</p>	
<p>The audit guide index should be reorganized to coordinate with a revised SFP Handbook to allow better definition of the subject areas. A sample portion of an example proposed index is attached.</p>	<p><u>Comments</u></p> <p>Senator Lowental: Same issues here with the guide we've not worked out the various stages of the audit, so this to will have to be referred back.</p> <p>AWG: The significant re-design is that the information that applies to all SFP programs is in one place and then the guide goes program by program. This is one guide that the districts can go to and know what is required.</p> <p>Kathleen Moore: Which means part of the guide is repetitive. Supportive of the concept that the audit and program guide should align. The objective is for the districts to know the rules.</p>

Motion made by Kathleen Moore: Recommendation was to send this item back to the work group.

Motion passed: 3-0.

Kathleen Moore wanted a sub-committee before the Board meeting so that the sub-committee can review the information and the public can make their comments.

Senator Lowenthal asked if the Audit Working Group talked about a timeframe of when audits must be completed by. Do we need to address the timeline? Does this issue need to be addressed.

Comments for the Audit Working Group lead were that the regulations need to be followed.

Public Comment from Tom Duffy was that a 6 month time frame should be followed - as discussed earlier people change jobs and information is lost.

Lisa Kaplan stated that regulations will be looked and clarified if needed.

AWG to meet again and discuss issues that Sub-Committee asked them to address and then bring those recommendations back before the final report is prepared for the November 3rd Board meeting.

Audit Working Group
Notes from 09-27-10

Audit Working Group

State Allocation Board – Subcommittee on Audits

Monday, September 27, 2010

State Capitol Room 2040

10:30am – 2:30pm

Notes From Audit Working Group:

I. Schedule of Meetings

The original Audit Sub-Committee will be meeting on October 20th from 1:30pm to 3:30pm at the State Capitol to review the recommendations from this Audit Working Group. On October 1st, the chair of the Sub-Committee requested the hearing be moved to October 14th from 2:30 p.m. to 5 p.m. in room 447.

II. Membership of Audit Working Group (Attendance) ✓ = *in attendance*

✓ CA Assoc School Business Officials (CASBO) – Lettie Boggs

California County Superintendents Education Services Assoc – Mike Ricketts

✓ CDE – Arlene Matsuro

✓ County Office of Ed Schools Consortium - Andrea Sullivan

✓ FCMAT – Debi Deal

Independent School Auditor Expert - Shilo Gorospec

✓ OPSC – Rick Asbell / Steve Inman

✓ State Controller's office – Casandra Moore-Hudnall

✓ School Facility expert – Cathy Allen

Treasurer's office – Blake Fowler (*on as needed basis*)

III. Charge of Audit Working Group

I. Review the actions taken by the Audit Sub-Committee on September 1, 2010.

II. Review and discuss recommendations that were sent back to the workgroup by the Audit Sub-Committee – clarify recommendation.

III. Reorder the index

Comments:

Lisa Kaplan opened the meeting reviewing the Audit Sub-Committee meeting that was held on September 1, 2010. Lisa asked Lettie Boggs and Cassandra Moore-Hudnall who presented at the sub-committee if they had any comments regarding their presentation.

Lettie Boggs stated that she felt that the presentation of recommendations before the Sub-Committee went well and she thinks the issues that were sent back were because of the way it was written, the idea and the concepts were there and similar to that of public comment.

Discussion on the recommendations sent back to the workgroup for vetting

The following items come from the Audit Work Group Issues and Recommendations document.

I. Scope and Type of Audits -Issue D

Program requirements at the time of application change over the time that a Local Educational Agency (LEA) submits their initial application and the time the project is audited.

Discussion regarding recommendation

LEA's should be audited to the guide and regulations at the time of funding. Workgroup discussed the possibility of an Office of Public School Construction (OPSC) official letter being sent to school districts stating which guidelines OPSC would audit to.

An audit-work group member started a discussion regarding streamlining that was more appropriate under Issue 4A in the Streamlining Actions within the Audit process section.

The work group then discussed OPSC having a place on the internet where regulation and audit guides would be archived. At this time the website does not house this information.

Public Comment

Richard Gonzalez (Consultant): Feels that the rules and compliance for the audit should be based on the date the application is submitted not the date of funding.

Discussion by Audit Working Group

Audit work group agreed that it should not be the date of funding. But where in the timeline is the appropriate point to audit?

Erik Bakke (LAUSD): 3 points in time and what point in time are we actually looking at; lots of things that happen over a 2 year period. To get funding based on the regulations that are in place we need to follow the guide that is in place when the funding application is submitted. For consistency – regulation and guide need to be consistent.

Richard Gonzalez (Consultant): Problem with annual audit guide... what do school districts do between publishing's. Vetting out the issues and having new regulations?

Discussion by Audit Working Group

Lisa Kaplan: Advised that a yearly audit update be conducted.

Lettie: Liked Cathy's idea which included the date and version of the audit guide the district would be held to being noted in the approval letter from OPSC.

Recommendation: LEAs should be audited subject to the Audit Guide and the regulations effective at the time the application is deemed complete and accepted by the OPSC. A notification will be given to the LEAs upon acceptance of their application detailing which regulations and

Audit Guide the project will be subject to at the time of Audit. The OPSC shall post electronically an archive of all previous and current regulations and Audit Guides for the district and the public to access. An interim process is needed to clarify applicable laws, regulations and the Audit Guides until a formal process is developed.

IV. Streamlining Actions within the Audit Process – Issue A

Program requirements can change from the time a district submits an application to the time the project is audited.

Discussion regarding recommendation

An incremental audit would be conducted based on the regulations as designated for the project and earlier reviews would be relied upon unless new information comes to light that would bring the previous review into question.

The workgroup also discussed that there needs to be a front end monitoring system done by the project managers. Project managers need to be reviewing information from the start and be trained on information that is looked at during audit. The audit should not be approving the applications – there is an independence issue here.

The SFP program was designed as a grant and go self-certifying program and it does not feel like that.

How do we hold OPSC accountable? What is OPSC's job and what is the role of the district in knowing the rules? Program staff needs to have clear and defined responsibilities.

The audit would be limited to the information and work done after fund release. The project manager would be responsible for the front end assignment if the appropriate version of the audit guide and with providing appropriate information about the process.

OPSC verification of the phase documentation would occur following the routine approval process and within one year.

- Eligibility
- Application
- Fund Release

The timeline for the incremental audits would be based on the forms:

50-04: Form would be verified within 1 year and shall only be re-opened if fraud is suspected. These verifications would then be relied upon by both the district and OPSC.

50-05: Form would be verified within 1 year and shall be relied upon unless further audit results in suspicion of fraud or illegal activity. This does not need to be a full review of every certification in every project, but can be made by appropriate sampling methods standard to audit practices.

50-06: This would be limited to a compliance audit review of project expenditures and close out of all miscellaneous items.

Public Comment

Richard Gonzalez (Consultant): What happens before the fund release occurs? Comfort level for school districts to know what is done and what's behind them. 1) Facilities – district submits paperwork for eligibility (birth rate, enrollment, house counts) 2) Application – fund release... meeting the requirements of the project and subject to review.

Discussion by Audit Working Group

OPSC agrees with front end review, but because of workload it may be difficult to do this.

Note: The front end review is a verification process, which is a bit different than an audit, but needs sufficient protocols that it can be relied upon at audit.

It actually becomes an auditable process for anyone auditing OPSC, rather than a part of the district's audit. In other words, OPSC becomes responsible to verify that they are collecting and checking a sufficient number of documents routinely that the documentation can be routinely relied upon in this grant program, without heavy audit review of districts (full audit – all projects.)

But it is critical to do it as a review and not as a part of the current approval process, otherwise the timeline gets worse for everyone!

Review at the 50-05 end – flexibility with time.

Eligibility

Application

Fund Release

Components to go back and look at: Contract to be re-evaluated.

Public Comment

Lyle Smoot (LAUSD): We need to nail down what's on the form first and then nail down a timeline. Things going on that are unnecessary. Knowing at sometime, 50-04 is reviewed in a certain time period.

Discussion by Audit Working Group

Did not like the word review – use a different word? Audit Working Group recommends “verified.”

Public Comment

Richard Gonzalez (Consultant): Reporting in real time – Internal audit to look at project manager (PM)?

Discussion by Audit Working Group

The Audit Working Group then discussed program staff to approve and verify 50-04 within a year of submittal – same with 50-05. (The approval would follow the current timeline where the OPSC project manager follows protocol to get the item ready for the SAB agenda which adds no additional delay to the current process. The verification would be a sample of a certain number of projects and documents that would be reviewed within one year to assure policing of the process occurs.) An external audit would occur for the 50-06.

Public Comment

Patti Herrera (CASH): What happens to apportionment if application was wrong?

Discussion by Audit Working Group

The same remedies that exist now would apply, but all current consequences are lessened when the time lag is significantly reduced, and future projects benefit by corrected process.

Public Comment

Richard Gonzalez (Consultant): Listing of 3-5 things (the sampled information) that needs to be provided for verification should be included in the letter and then the district would provide the information in a one year period as part of the certifications. Every application would be selected by sampling and then the district would provide information in one year.

Board apportions, OPSC has a year to verify, upon notice to provide the requested documents which are chosen by a typical audit sampling methodology not to exceed 5-10, unless upon examination reason exists to extend to further review.

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

V. Audit Appeals Process – Issue A

Currently LEAs can appeal issues through the SAB. A objective timeline and process is needed to address audit discrepancies that have a fiscal impact on the district and the State.

Discussion regarding recommendation

Establish an interim process where an appeals panel is created while the EAAP process is pursued.

Recommendation: Create an Appeals panel as an SAB Sub-Committee to hear fiscally related appeals as an interim process while taking the necessary steps to move towards an independent process such as the Education Audit Appeals Panel. The SAB Sub-Committee would consist of representatives from the CDE, Department of Finance and the Legislature. The interim process would also allow districts to go before an Administrative Law Judge in cases where districts do not agree with the findings of the SAB Audit Appeals Sub-Committee and then ultimately before the full SAB.

Reorder the index

Discussion regarding recommendation

The index to coordinate with the program guide. Suggest vetting through the implementation committee.

Recommendation: The Audit Guide and the School Facility Program Handbook should both be coordinated and re-organized to provide clear guidelines to all LEAs. The coordination of the Audit Guide and the School Facility Program Handbook should be updated annually and vetted through the SAB Implementation Committee.

OPSC Comments regarding
Audit Working Group
Recommendations

OPSC Comments regarding Audit Working Group Recommendations

If the AWG is recommending audits conducted under Yellow Book Standards as stated in item I(b), then the following criteria must be adhered to.

ITEM 1(d) SCOPE AND TYPE OF AUDITS

The Audit Guide should reiterate that Statute provides OPSC discretion as to what records and documentation are necessary during an audit. The audit guide should not suggest that the OPSC methodology or audit protocols are restricted by the information provided in the audit guide. The audit guide is intended to provide a “heads up” to districts that the OPSC will be auditing specific subject matter.

Section 17076.10(a) of the Education Code states that “the board may require an audit of these reports or other district records...” the term *other district records* leaves it open to the auditor’s professional judgment as to what documents are necessary. This is also stated in the California Department of Education’s (CDE) audit guide as follows:

**TITLE 5. Education
Division 1.5. Education Audit Appeals Panel
Chapter 3. Audits of California K-12 Local Education Agencies
Article 1. General Provisions**

§ 19810. Scope.

These regulations constitute the audit guide, *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, that shall be used in the performance of the audits required by Education Code Section 41020. These regulations do not provide a complete manual of procedures; auditors must exercise professional judgment.

NOTE: Authority cited: Section 14502.1, Education Code. Reference: Sections 14502.1, 14503 and 41020, Education Code.

ITEM V (a) AUDIT APPEALS PROCESS

For true independence, remove from last sentence “and then ultimately before the full SAB”. There must be a separation of duties for there to be independence, otherwise an organizational impairment exists, which can affect the reliability of the audit findings. This is best addressed in Government Auditing Standards as follows:

3.02 In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, must be free from personal, external, and organizational impairments to independence, and must avoid the appearance of such impairments of independence.

External Impairments

3.10 Audit organizations must be free from external impairments to independence. Factors external to the audit organization may restrict the work or interfere with auditors' ability to form independent and objective opinions, findings, and conclusions. External impairments to independence occur when auditors are deterred from acting objectively and exercising professional skepticism by pressures, actual or perceived, from management and employees of the audited entity or oversight organizations. For example, under the following conditions, auditors may not have complete freedom to make an independent and objective judgment, thereby adversely affecting the audit:

Interest Group Comments regarding
Audit Working Group
Recommendations



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October 5, 2010

Ms. Lisa Kaplan
State Allocation Board
707 Third Street, 8th Floor
West Sacramento, CA

Audit Working Group Recommendations

Dear Ms. Kaplan:

The Coalition for Adequate School Housing (C.A.S.H.) continues to be concerned about an Audit Working Group recommendation that would subject School Facility Program (SFP) projects to additional reviews by the Office of Public School Construction (OPSC) program staff.

As you are aware, the SFP was conceived as a grant-and-go state funding program for public school construction based on certifications made by applicant school districts that laws and requirements have been met. C.A.S.H. understands that the Audit Working Group will be presenting an State Allocation Board (SAB) policy recommendation to the SAB Audit Sub-Committee that proposes to give the OPSC program staff a limited one-year verification period to question and confirm the self-certifications made by districts through the application documents submitted for approval and requests for fund releases.

C.A.S.H. understands the assurance and relief sought by members of the Audit Working Group through this recommendation; however, we must continue to object to efforts for additional reviews and requirements on SFP projects at the time of application. At a time when we are engaged in discussions to streamline the school approval and construction processes, this recommendation is counterproductive in that context.

C.A.S.H. believes that the concerns serving as the genesis for this recommendation largely can be allayed by the development and implementation of clear and complimenting Program and Audit Guides, one of the Audit Working Group's other recommendations supported by C.A.S.H. and the Audit Sub-Committee.

C.A.S.H. respectfully requests that the Audit Working Group reconsider this recommendation and that a thorough vetting, inclusive of a healthy public dialogue, be given to the issue before taking it to the SAB Audit Sub-Committee on October 20, 2010.

Sincerely,

Thomas G. Duffy, Ed.D.

cc: Members, SAB Audit Sub-Committee Working Group
Ms. Mavonne Garrity, Office of Senator Alan Lowenthal
Ms. Lisa Constancio, CDE/School Facilities Planning Division