



November 26, 2007

To: All School Districts and County Superintendents of Schools

Subject: Office of Public School Construction's Process Improvements – Internal Controls

The Office of Public School Construction's (OPSC) goal is to improve the audit process and reduce the amount of time being spent by OPSC and school district staff in auditing our closeout projects. The OPSC will be adopting a Management Representation Letter (MRL) in our audit process that is a certification by a school district that it has proper internal controls. We are confident that you are following these internal control standards since districts must make this same certification as part of their annual independent audit reports. Providing evidence of sound internal controls will enable us to streamline your audits.

Education Code Section 41020 requires each school district's books and accounts to be audited annually by certified public accountants that comply fully with Generally Accepted Government Auditing Standards (GAGAS). One component of GAGAS requires independent auditors to obtain a sufficient understanding of internal controls.

Proper internal accounting and administrative controls ensure that assets are safeguarded, accounting data is accurate, and that managerial policies are being followed. Some examples of proper internal controls include:

- Separation of duties – This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing transactions, and handling assets. No one individual should control all key aspects of a transaction.
- Controls over Information Processing – This includes edit checks of data entered, accounting for transactions in numerical sequences, comparing file totals with control accounts, and controlling access to data, files, and programs.
- Physical Control Over Vulnerable Assets – This includes security for and limited access to assets such as cash, securities, inventories, and equipment which might be vulnerable to risk of loss or unauthorized use.
- Monitoring conflict of interest – Staff authorized to approve contracts should not hold a financial interest in potential vendors.
- A system of checks and balances – Policies should be in place to ensure that authorization for approvals are in place.

Beginning in January 2008, we will be requesting that an authorized district representative sign and return the MRL. The OPSC must verify this information during its audit of State bond dollars and this certification is essential to ensure the integrity of the audits. By adopting the MRL, we will be able to reduce the amount of time that we mutually spend on your closeout audits.

If you have any questions regarding this matter, please feel free to contact Ms. Lisa Silverman, Fiscal Operations Manager, at (916) 322-0264.

Sincerely,
ROB COOK
Executive Officer
Office of Public School Construction