

LONG BEACH SCHOOL DISTRICT
Planning Meeting to Discuss Scope of the 2009-10
Measure K Financial and Performance Audits
April 1, 2010

Bond Measure to be Audited: Measure K - \$1.2 billion school construction and renovation, approved by the voters on November 4, 2008.

Proposition 39 Requirements

Proposition 39 amended Articles XIII A and XVI (Section 18) to give school districts the option of having bond measures passed with a 55% vote providing that:

- Bond funds are only for facilities; which includes: construction; rehabilitation or replacement of school facilities; site acquisition; and, furnishing and equipping schools. The bond proceeds cannot be spent for any other purpose, such as teacher and administrator salaries or other school operating expenses.
- Before holding an election, a school district must publicize a list of its intended projects, along with certification that it has evaluated "safety, class size reduction, and information technology needs" before preparing the list.
- A school district must arrange for a performance audit (ensure that the funds are spent only on the specific projects listed) and a financial audit of bond proceeds until all of the proceeds are used.
- AB 1908 also stipulates that, if the bond election succeeds at the 55% level, the school district must appoint a Citizens' Oversight Committee (COC) to "actively" review and report on the proper expenditure of taxpayers' money for school construction, and "alert the public to any waste or improper expenditures."

State Controller's Audit of Proposition 39 Bonds (*The State Controller's Office Audit of San Joaquin Delta College's Proposition 39 Bonds (released November 2008)*)

The SCO audit was prompted by a Grand Jury inquiry and citizen's complaint. In addition, the SCO was involved because the Little Hoover Commission is looking into the "adequacy of state oversight and control of bond expenditures." The majority of their findings related to questioned costs but they did have one finding related to the "audit." Specifically, the SCO criticized Agreed-Upon Procedures (AUP) as not meeting the intent of the law to conduct a "performance audit." In their report, they said:

- *We found that the annual audit requirement for a performance audit and a financial audit did not result in meaningful enhancement of accountability and transparency of Measure L funds. Instead of arranging for performance audits as specified in Proposition 39 and Measure L, Delta College retained the auditors to perform "agreed-upon procedure" reviews, which are less comprehensive. In performing the procedures, the auditors retained by Delta College apparently were liberal in their interpretation as to what constitutes appropriate expenditures under Measure L. Although Proposition 39 requires an independent financial audit of bond proceeds until all proceeds have been expended, the contract between Delta College and its auditors since the passage of Measure L did not call for any additional audit procedures beyond what the auditors already were required to perform to meet audit requirements under state and federal laws.*

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In the end, one of SCO's recommendations to the Legislature was to "More clearly defining the purpose and objectives of the required annual financial and performance audit and specify that such audits shall be conducted in accordance with generally accepted government auditing standards." NNW's audit will be conducted in accordance with Performance Auditing Standards and an opinion will be rendered on performance.

Work to be performed by NNW (and included within contract fee)

A financial and performance audit to satisfy Article 13A and utilizing the *Government Auditing Standards* for Performance Audits. Note that for every audit we perform we: (1) ensure our independence; (2) plan the engagement; (3) design tests based on audit and fraud risk assessments; (4) communicate to management, the oversight committee and board; (5) supervise the audit work; (6) employ internal quality control procedures; and, follow AICPA *Generally Accepted Auditing Standards*. Our firm's system of quality control has been given an unqualified opinion by our peer reviewers.

We have agreed to conduct the following procedures:

1. Internal Control Understanding and Documentation (includes approvals, compliance, needs assessment, project expenditure tracking, and development of budgets) (Note: we will obtain and document our understanding of internal control and report weaknesses. An opinion on internal controls will not be rendered.)
2. Fraud Risk Assessment and Inquiries, in accordance with Statement on Auditing Standard #99
3. Independent Citizen's Oversight Committee (COC)
 - a. Minutes review
 - b. Proper establishment of the committee
 - c. Ensure financial amounts provided to COC agree to official accounting records
 - d. COC review and acceptance of annual audits
4. Analytical Review of Financial Amounts
5. Verification of Balance Sheet Account Balances for the Building Fund – Measure K
6. Substantiation of Revenue (e.g.; bond proceeds, interest and interfund receipts)
7. Substantiation of Expenditures - from a list of expenditures paid by project we:
 - a. Examine invoices, purchase orders and contracts
 - b. Test allowability and compliance with legal requirements
 - c. Test that expenditures are described in budget and facilities planning document; including, but not limited to: site discretionary fund allocations and expenditures and salaries
8. Test of Contracts and Bid Requirements - from a list of contracts we:
 - a. Examine bid documents and contractor selection methods for compliance with PCC
 - b. Compare total expenditures to total contract
 - c. Examine change orders for approvals and legal requirements
 - d. Examine bid security and insurance

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- e. Consider fraud and audit risk assessment and customize audit tests (note: if indications of fraud are found, it will be communicated to the proper level of the organization and a fraud investigation recommended)
- 9. Facilities Inspections (i.e.; site walks to verify project expenditures were made in accordance with Part 1 and 2 of Measure K and approved facilities plans)

Procedures outside the current audit scope that NNW could coordinate with a facilities or other specialist:

- 1. Cost savings efforts
- 2. Quality of construction
- 3. Effectiveness of bond related programs, such as labor compliance
- 4. Staffing and program management plans (some collaboration with facilities specialist is recommended)

Audit Report Content

Summarize Results of Audits, preparing:

- a. Financial Statements and related notes
- b. Audit opinions (financial and performance and GAAS opinion)
- c. Supplemental schedules (expenditures by project, a budget to actual comparison)
- d. Findings and recommendations

The audit report will include the objectives, scope, and methodology; the audit results, including findings, conclusions, and recommendations, as appropriate; a reference to compliance with generally accepted government auditing standards; the views of responsible officials; and, if applicable, the nature of any privileged and confidential information omitted. The audit report should also include any significant deficiencies in internal control, all instances of fraud and illegal acts unless they are clearly inconsequential, significant violations of provisions of contracts or grant agreements, and significant abuse.

In addition the report could include: budget reports, project tracking and status reports, background information on Measure K, district policies and procedures, example program management forms used, staffing lists and the results of any facilities expert's review. This would in addition to the basic report originally proposed.

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Audit Timing

We anticipate the audit timeline to be as follow:

<u>Work Segment</u>	<u>Proposed Date</u>
Audit Planning	March
Performance Audit Fieldwork	Week of April 26 th and August 2nd
Financial Audit Fieldwork	Week of October 4th
Report Draft	October
Final Report	October/November

Audit Team

<u>NNW Employee</u>	<u>Title</u>
Christy White, CPA	Partner
James Hawley, CPA, CFE	Manager
Joe Tarantino	Senior
Ben Leavitt	Experienced Staff

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