

2009 Fall Conference

Coalition for Adequate
School Housing
(C.A.S.H.)

October 13, 2009

Westin South Coast Plaza
Costa Mesa, CA

C.A.S.H. Fall Conference Preparing for OPSC Audits – Documentation and Preparation

Presenters

- Cathy Allen, Western Placer USD
- Erik Blum, Los Angeles USD
- Rob Pierce, Elk Grove USD

Fiscal Services Update

Rob Cook
Executive Officer



Office of Public School Construction

STAFF TO THE STATE ALLOCATION BOARD



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Executive Order S-02-07 Bond Accountability

- Signed on January 24, 2007
- Requires Agencies to Implement Accountability Measures:
 - Front End
 - In-Progress
 - Back-end



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Front-End Accountability Measures

- Outreach Effort
 - Focus on Application Stage of Project
 - Importance of establishing Fiscal Internal Controls
 - Helps prevent negative Audit Findings early on

In-Progress Accountability Measures

- Ensure Substantial Progress is being made during Various Phases of a Project



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Back-End Accountability Measures

- Closeout of Project
- The OPSC will ensure the following:
 - Project was completed for which the Grants were awarded
 - Certifications were valid
 - Contribution of Matching Share
 - Any Savings achieved must be spent on High Priority Capital Outlay Projects and all SFP Expenditures must be reported until all Savings is fully liquidated



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Increased Effectiveness and Efficiencies

- Extensive Training for Audit Staff
- Hiring Experienced Field Auditors
- Conducting Field Audits
- Adopting a Risk Assessment Model
- Incorporate Best Practices into OPSC's Audit Program



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Erik Blum
Los Angeles USD

Background

- 105 projects with OPSC-declared savings
 - Closeout reviews by OPSC in 2004-06 timeframe
- OPSC wanted report on how LAUSD had spent savings
- Iterative process over 1-1/2 years
 - Lengthy response times between agencies
 - Evolving process of OPSC-required documentation

Background – Cont.

- OPSC indicated desire for onsite visit / audit
 - Initial visit in February 2009
 - Full audit team for 3 weeks in June-September 2009
 - Significant auditor orientation / education component

Scope of Audit

- Initial audit scope was to verify use of savings
 - Focus on 16 projects identified by OPSC
 - Possible review of other projects in 105
 - OPSC desire to understand how we used savings
- Upon site visit, OPSC indicated audit could include:
 - Expenditure of savings
 - Revised audit of original, closed-out projects
 - Internal controls review for any LAUSD process related to expenditures & commitments

Audit Progress

- Lengthy discussions on LAUSD processes
 - Savings expenditures, tracking, etc.
 - District financial systems & use
 - Reviewed previous District CAFR audits
 - Screen-view review of General Ledger processes
- Particular focus on items not related to savings expenditure
 - FEMA projects
 - Interfund transfers reported in CAFR

Current Status

- Auditors completed field work in mid-September
- LAUSD awaiting publication of draft audit findings
- Exit-interview suggested no major issues
 - District, self-admittedly, has not yet expended all savings

Audit Trends Observations / Conclusions

- Savings audit scope is very broad
 - Not merely about verifying expenditure of savings
 - Breadth of scope not communicated at beginning of audit
 - Scope evolved over course of audit
- Comprehensive review of systems, process, and accounting treatments

Audit Trends Observations / Conclusions

- OPSC indicated right to re-audit projects that have been through final closeout audit
 - Including those closed more than 3 years
- LEAs should be prepared for significant time investment to accommodate audit requests

Open Issues / Recommendations

- Audits are reviewing means and methods, but no advance guidance on what is acceptable
- What is primary intent of audit?
 - Use of savings has no time limit for use (non-FH districts)
 - Statutory requirement is to “demonstrate use (expenditure) of savings” for “high-priority capital needs”
- Is interest earned in County fund savings?
 - Is it reasonable to report at project level when earned at fund level?

Open Issues / Recommendations

- Clearer guidance on audit scope, expectations would be valuable to LEAs
- Provide more proactive specifics on procedures or methods where expectations are known

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Case Study:

Elk Grove Unified School District

Robert Pierce
Associate Superintendent

Case Study: Elk Grove Unified School District

- I. Project Closeout Audits
- II. New Audit Measures
 - a. Notification
 - b. Requests
 - c. Entrance Conference
 - d. Audit Observations
 - e. Internal Controls
 - f. Fiscal/SFP Audit
 - g. Exit Conference
 - h. Site visits
 - i. Closeout/Findings

Project Closeout Audits

- Standard closeout audit
 - Early December 2008 notification
 - 20 projects
- Closeout audit initial requests
 - Final DLOPE's for 20 projects
 - Independent Financial Audits for 06/07 and 07/08 including:
 - IA's report letters
 - IA's report on internal controls
 - IA's report on audit findings
 - IA's summary of findings from prior audits

Project Closeout Audits

- Contacted by OPSC in March 2009 for additional information:
 - Main construction contracts
 - Change order descriptions submitted to DSA
 - DSA approval of all change orders
 - Description from District or architects regarding scope changes on all 20 projects
 - Pending change orders on all 20 projects
 - Final billings and final escrow disbursement evidence

Project Closeout Audits

- Additional information continued:
 - Bid advertisements and bid summaries or evidence of alternative delivery compliance
 - LCP contracts
 - Various consultant contracts
 - Escrow statements and appraisals
 - GL reports for five fiscal years
 - NTP and NOC for all 20 projects
 - Warrants for 58 various billings
 - Management Representation Letter/Form

New Audit Measures Notification

- In District Audit Notification
 - Contacted via telephone in June 2009
 - Coordinated dates for in district audit
 - Follow-up (July 2009) to ensure objectives and agenda
 - Written confirmation of “site visit audit” in July 2009

New Audit Measures Initial Requests

- Written confirmation of site visit audit included request for additional information:
 - Two additional fiscal year GL's
 - Site plans and maps
 - Bid summaries
 - Complete appraisal for one project
 - Flow charts for SFP internal control process
 - Various warrants
 - Audit reports for an additional six fiscal years

New Audit Measures Entrance Conference

- Introductions
- Audit Authority Presentation
 - SFP Regulation 1859.106
 - Ed. Code Section 17076.10
 - Governor's Executive Order S-02-2007
- Scope and Objective of Audit Engagement
 - Final expenditure audit for all 20 projects
 - In-depth audit of expenditures
 - Internal controls testing/questions
 - Site visits to five projects (seven schools)
- Distribution of the latest requested documents

New Audit Measures Audit Observations

- Discussions and questions:
 - Prior audit findings and actions taken
 - Prior legal matters (capital & non-capital)
 - Grand Jury reports
 - Settlement agreements
 - Fiscal and facilities staff turnover
 - Fiscal and facilities staff competence

New Audit Measures Internal Controls

- Reviewed the District's SFP flow chart
 - Ensuring SFP timelines and requirements are met
 - PCC, professional services, and District standards
 - Bidding procedures, contracting requirements, PO approvals
 - Detailed questions pertaining to the flow chart
- Pay application/contractor payment process
- Ensuring quality and “getting what you paid for”
- Payment approvals and accountability
- Tracking of SFP funds from SAB to County to Project

New Audit Measures Fiscal/SFP Audit

- Discussions and questions:
 - Comparing total expenditures on GL's to DLOPE's and explanation of differences
 - Inter-fund transfers
 - Reported 50-06 interest differing from GL's
 - Site purchase amounts on DLOPE's or GL's more than OPSC amounts
 - Various consultant scope and payments
 - Multiple accounting and reporting questions

New Audit Measures Fiscal/SFP Audit

- Discussions and questions continued:
 - Total expenses to contractor reported exceeding final pay application and CO's
 - Classroom counts relative to site plan and CDE approval letters
 - Testing various expenditures
 - Request for additional information to review on the following day
 - Continued testing samples and requesting fiscal reports
 - DSA not showing all change orders

New Audit Measures Exit Conference

- Broad findings of audit
- General discussion of how things went
- Formal findings to be issued with a summary of project expenditures
 - District will have 15 days to respond
- Additional documents and/or explanations were requested

New Audit Measures Site Visits

- Ensuring District built the project as funded
- Location of schools verified
- Athletic fields verified
- Classroom counts verified at random
- Support facilities verified at random
 - Libraries, Gymnasiums, M/P rooms, Locker rooms

Preparing for OPSC Audits Summary

- Started in December 2008 (closeout audit)
- Closeout ran from December 2008 to April 2009
- June 2009 contact regarding closeout audit and in district audit measures
- In district audit occurred in late August 2009
- Multiple follow up documents and explanations requested before, during, and after
- "Final" documents/explanations submitted on September 8, 2009
- Findings are pending