



CALIFORNIA LEAGUE OF BOND OVERSIGHT COMMITTEES  
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## Accountability Requirements of Proposition 39



### Financial and Performance Audits

#### ■ 1. ACCOUNTABILITY REQUIREMENTS

##### “Strict Accountability in Local School Construction Bonds Act of 2000” Education Code 15264:

- Vigorous efforts undertaken to ensure that expenditures are in strict conformity with Section 1 of Article XIII A of the CA Constitution.
- The members of the oversight committees alert the public to any waste or improper expenditure of bond money.

##### Article XIII A – Section 1 requires accountability requirements:

- Bond proceeds must be spent only on the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of schools, or the acquisition or lease of real property for school facilities.
- Bond proceeds must NOT be spent on teacher and administrator salaries and other school operating expenses.
- A list of the specific school facilities projects to be funded and certification that the school district board, community college board, or county office of education has evaluated safety, class size reduction, and information technology needs in developing that list.
- A requirement that the school district board, community college board, or county office of education CONDUCT AN ANNUAL, INDEPENDENT PERFORMANCE AUDIT to ensure that the funds have been expended only on the specific projects listed.
- A requirement that the school district board, community college board, or county office of education CONDUCT AN ANNUAL, INDEPENDENT FINANCIAL AUDIT of the proceeds from the sale of the bonds *until all those proceeds have been expended for the school facilities projects.*

##### Senate Bill 1473

- Requires school districts to perform the Financial and Performance audits in accordance using Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States, who heads up the U.S. Government Accountability Office (GAO).
- According to the GAO, “Performance audits entail an objective and systemic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria.”
- GAGAS outlines several types of performance audits whereby the “Compliance Audit” appears to be the most appropriate. “Compliance Audits relate to the compliance criteria established by laws, regulations, contract provisions, grant agreements, and other requirements that could affect the acquisition, protection, use, and disposition of the entity’s resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers.”

## ■ 1. ACCOUNTABILITY REQUIREMENTS, CONTINUED...

### Senate Bill 423

- Requires that both the financial and performance audits for the preceding fiscal year be submitted to the CBOC by March 31<sup>st</sup> of each year.

### GAGAS (Generally Accepted Governmental Auditing Standards) 8.30:

The auditor's report must include the following language:

*"We conducted this performance audit in accordance with the generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives."*

## ■ 2. UNDERSTANDING THE PERFORMANCE AUDIT

- Performance Audit approaches varies by auditing firm and by school district.
- Prior to the passage of SB 1473, many districts did not conduct Performance Audits pursuant to GAGAS, and instead engaged for "Agreed Upon Procedures".
- Agreed Upon Procedures are less reliable since the scope and work of the audit are dictated by the school district, rather than the auditor. Taxpayers should have no assurance that bond proceeds were spent in accordance with the law. (See AICPA procedures for attestation engagements.)
- The scope of the Performance Audit may not necessarily detect waste, abuse or fraud. Fraud, waste and abuse may be found in a forensic audit.

### Reliance on the Performance Audit

- CBOCs should have a complete understanding of the audit objectives and work performed to determine how and to what extent they can rely on the auditors work.
- CBOCs should perform additional testing, where necessary for reporting purposes.
- Ultimately, the law requires CBOCs to report annually whether the district is in compliance with Section 1(b)(3)(A) of Article XIII A:

*A requirement that the proceeds from the sale of the bonds be used only for the purposes specified in Article XIII A, Section 1(b) (3), and not for any other purpose, including teacher and administrator salaries and other school operating expenses.*

### ■ 3. PERFORMANCE AUDIT: SAMPLE QUESTIONS TO ASK THE AUDITOR

- **What are the audit objectives? Explain the scope of the Audit.**

- How are the audit objectives and scope consistent with the required laws?
- Explain any additions to the scope.

- **Did the Board, Superintendent, project management or any other related/interested party influence the scope of the audit or the work performed?**

- If so, please explain.
- What assurance can be provided to the CBOC that the auditor remained independent throughout the engagement? (e.g. Management Representation Letter)

- **What is the auditor's Definition of Materiality?**

- What is the auditor's Definition of Significance?
- How does the auditor measure materiality/significance?
- What amounts/facts/circumstances would you consider immaterial? (*In making materiality judgments, auditors should make quantitative and qualitative considerations.*)

- **How did the auditor plan the audit?**

- How did the auditor determine what work to be performed?
- Describe the test procedures performed over key review areas.

- **How did the auditor identify risks** and did they assess the existence and effectiveness of internal controls to mitigate such risks? For example, is their sufficient and proper segregation of duties?

- **What is the auditor's responsibility for detecting fraud?**

What procedures were performed to detect fraud?

- **How did the auditor determine its audit sample?**

Was the sample random? What was the sample size?

- **What district policies and procedures were reviewed?**

- For example, did the auditor consider whether the district was in compliance with its procurement/contract bidding policies and procedures?
- Did the auditor review contract change orders?

- **For any aspect of the audit, did the auditor rely on another auditor's work?**

- **Did the auditor make site visits? Did the auditor verify inventory?**

- **Is there any pending or threatened litigation or arbitrations?**

- **Explain interfund transfers involving the "Building Fund".** (The Building Fund holds bond money to be used for projects. This is a restricted fund and should not be loaned out for other purposes.)

- **Where there any related party transactions?** Did the auditor perform any additional test procedures over those expenditures paid to vendors who contributed to the bond ballot measure?

- **Did the auditor review payroll to district employees working on project management?**

- **Did the auditor review the adequacy and accuracy of the accounting systems** used to track projects, budgets, financial reports, and other necessary reporting.

- **Did the auditor review all the contents of the Performance Audit?** If so, how did the auditor ensure district data shown in the performance audit is accurate and complete?

- Within the performance audit, identify data that is written by the auditor. For example, the audit report and written conclusions.