



June 18, 2010

Ms. Lisa Silverman
Acting Executive Officer
Department of General Services
Office of Public School Construction
707 Third Street
West Sacramento, CA 95605

Dear Ms. Silverman:

Management Letter—Department of General Services, Office of Public School Construction School Facilities Program, Review of Potential Audit Duplication

The Department of Finance, Office of State Audits and Evaluations (Finance), is currently performing an audit of the Department of General Services, Office of Public School Construction's (OPSC) oversight for the Proposition 1D bond funds. Standard audit procedures require us to gain an understanding of audit functions over bond funded programs. OPSC specifically requested us to identify any potential audit redundancies and opportunities to incorporate best practices. This letter summarizes the interim review results and is limited to identifying potential audit redundancies between the School Facility Program audits and other statutorily required district audits. A separate report will be issued at the conclusion of our OPSC bond oversight audit.

Background

The School Facilities Program (SFP) provides state funding for K-12 school facility construction and modernization. Since 2002, several bond measures have allocated over \$28 billion for school district facilities, including \$7.3 billion in Proposition 1D. Pursuant to the School Facility Program Regulation section 1859.106, OPSC is required to perform expenditure audits to ensure district project expenditures are made in accordance with specified Education Code provisions and SFP regulations. School districts are also subject to the following fiscal and compliance audits:

- Proposition 39 (local) General Obligation Bond audit
- Comprehensive Annual Financial Report (CAFR) audit
- Single Audit, Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*
- California K-12 Local Educational Agencies (LEA) audit

To identify potential audit redundancies, we reviewed current applicable state and federal requirements, existing audit guidelines and procedures, and audit reports for each audit type noted above. We also interviewed OPSC managers and key audit staff. We further reviewed reports prepared by the Little Hoover Commission that discuss bond accountability and audits.

This review was conducted during April 2010 through May 2010.

Review Results

Based on our review, there is no audit scope redundancy or duplication between the SFP audits and the district audits listed above. As noted in Exhibit A, the statutorily required district audits are at the fund or program-level, whereas, the SFP audits are at the project-level. Accordingly, OPSC's SFP audits are the only audits that provide comprehensive verification of project expenditures in accordance with Education Code and SFP regulations.

Lastly, any potential audit overlap should be identified during the audit planning phase. *Government Auditing Standards* require auditors to follow the following procedures to avoid audit duplication:

Section 7.36: When planning the audit, auditors should ask management of the audited entity to identify previous audits, attestation engagements, performance audits, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented. Auditors should use this information in assessing risk and determining the nature, timing, and extent of current audit work, including determining the extent to which testing the implementation of the corrective actions is applicable to the current audit objectives.

Section 7.42: If other auditors have completed audit work related to the objectives of the current audit, the current auditors may be able to use the work of the other auditors to support findings or conclusions for the current audit and, thereby, avoid duplication of efforts.

To ensure audit duplication is avoided, we recommend OPSC auditors follow the above *Government Auditing Standards* and review all relevant district audits in order to determine the nature, timing, and extent of audit work.

We appreciate the cooperation and assistance of OPSC. If you have any questions regarding this review, please contact Diana Antony, Manager at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Rob Cook, Deputy Director, Interagency Support Division, Department of General Services
Mr. Stephen Amos, Chief Deputy Director, Department of General Services
Ms. Cynthia Bryant, Chair, State Allocation Board
Mr. Rick Gillam, Chief, Office of Audits Services, Department of General Services

Exhibit A
Office of Public School Construction
School Facility Program Audits
Audit Duplication Review Results

Audit	Governing Statutes	Audit Scope	Audit Frequency	Duplication with SFP Audit?
SFP Audit (Conducted by OPSC Audit Staff)	<ul style="list-style-type: none"> • Education Code section 17076.10 • SFP Regulation section 1859.106 	<u>Program compliance close-out audit</u> of state school facility bond funded projects to: <ul style="list-style-type: none"> • Determine project expenditures are made in accordance with Education Code and SFP regulations. 	Time-sensitive (audit must start within 2 years from project completion)	N/A
Statutory Required School District Audits (Conducted by Other Auditors)				
Proposition 39 General Obligation Bond Audit	<ul style="list-style-type: none"> • Education Code section 15272 • California Constitution Article 13A section 1 (b) (3) 	<u>Financial and performance audit</u> of local bond funds to: <ul style="list-style-type: none"> • Determine bond proceeds have been expended for the school facility projects. • Ensure the funds have been expended only on the specific project listed and for no other purposes. 	Annual	No
CAFR Audit ⁽¹⁾	<ul style="list-style-type: none"> • Education Code section 41020 	<u>Financial audit</u> of local educational agency (LEA) to: <ul style="list-style-type: none"> • Audit the books and accounts of the LEA, including an audit of income and expenditures by source of funds. The audit shall include all funds of the LEA. 	Annual	No
Single Audit ⁽¹⁾	<ul style="list-style-type: none"> • Circular A-133 	<u>Financial and compliance audit</u> of federal awards to: <ul style="list-style-type: none"> • Determine if the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles. Also, determine if the schedule of expenditures of federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole. • Review internal controls over financial reporting and over federal programs. • Determine compliance with federal program requirements. 	Annual	No
K-12 LEA Audit ⁽¹⁾⁽²⁾	<ul style="list-style-type: none"> • Education Code sections 14502.1, 14503 & 41020 	<u>Financial and compliance audit</u> of state funds to: <ul style="list-style-type: none"> • Determine compliance with state program requirements, including review of attendance and instructional information. 	Annual	No

(1) The single audit, the Comprehensive Annual Financial Report (CAFR) audit, and K-12 State Compliance audit are often combined into one audit report to avoid duplication of effort and redundancy.

(2) K-12 LEA audit is conducted in accordance with the Education Audit Appeal Panel, *Standards and Procedures for Audits of California K-12 Local Educational Agencies (K-12 Audit Guide)*. The requirement for testing the SFP expenditures was removed from the *K-12 Audit Guide* beginning in 2008-09 and has been excluded for fiscal years 2009-10 and 2010-11.