

Overpaying the auditor?

New Senate bills clarify Prop. 39 audit requirements

By Abigail Stokes Palsma, Vicenti, Lloyd & Stutzman

Confusion over the requirements for Proposition 39 has led to larger scope and more expensive audits than may be necessary.

Some firms have mistakenly communicated to K-12 and community college districts that an \$80,000 to \$90,000 effectiveness and efficiency (E&E) audit is required to satisfy the law. As of Jan. 2, 2011, the matter was settled in Senate Bill 1473, Wyland. Districts can save tens of thousands of dollars by choosing a more appropriately sized audit while fully satisfying their legal responsibility to taxpayers.

"While there are cases when a district's operations are so poorly designed or executed that an E&E audit is appropriate, school and community college boards should understand that a compliance audit costs closer to \$10,000 to \$15,000," Vicenti, Lloyd and Stutzman Partner Renee Graves said. "A compliance audit satisfies the requirements of the law, meets the spirit of Proposition 39 and saves districts a significant amount of money."

Districts do indeed need to be careful. Recent audits and citizen complaints have led to investigations finding that some districts have wrongfully used Proposition 39 funds. With no slack in California education budgets, absorbing losses due to fraud, error or inefficiency is unthinkable.

Technically speaking, SB 1473 does not require a huge shift in practice. The original Proposition 39 language did not specify what type of audit was

necessary. As a result, many districts created a custom approach through attestation audits, where auditors completed "agreed upon procedures." Without uniformity, there was not statewide comparability between the reports, the scope of audit work done or the resulting findings from that work.

The new law requires that financial and performance audits for Proposition 39 funds be conducted in accordance with Government Auditing Standards issued by the comptroller general of the United States, or "Yellow Book." Reputable accounting firms were already abiding by these guidelines, though the audit report was not required to specifically state so.

But districts should not be misled. There is no authoritative body that requires an E&E audit; rather the board of trustees is free to choose the appropriate audit proportional to the district's assessed risks. Possible audits include: 1) E&E, 2) compliance, 3) internal controls and 4) prospective analyses, each with a different purpose and potential cost.

A reasonable approach

Prior to SB 1473, the California League of Bond Oversight Committees (CaLBOC) was moving forward to propose legislation that would force all community college and K-12 districts to conduct an E&E audit every year. Limiting districts to the most expensive audit would have been an extreme reaction to the relatively few cases of misappropriation. Had they been successful, community college and K12 districts would have had to shoulder an enormous and, in most

cases, unnecessary annual cost. In late 2009, CASBO worked closely with the California Community College chancellor's office to oppose the requirement of an annual E&E audit and to force a change in the bill that made more sense for school and community college districts.

"SB 1473 isn't the medicine CaLBOC was initially asking for, but it is a compromise that is not damaging to the districts," Frederick E. Harris said. Harris, who is the assistant vice chancellor of College Finance & Facilities Planning in the chancellor's office.

"CaLBOC was asking for a uniform approach to audits ... what they got was a risk-avoidance solution that helps preserve the accountability mechanism voters put in place," Harris said. "The bill provides for a reasonable, balanced approach to Proposition 39 audits that provides for greater accountability (satisfies CaLBOC), but preserves the ability for districts to go out for bonds (a win for CCDs and K12s)."

Noting the differences

To protect the taxpayers' intentions in their approval of Proposition 39, the annual performance audit is conducted to ensure that monies from the sale of bonds have been expended only on the projects specifically listed in bond measures, and that these listed projects are relevant to school facilities.

E&E audits scrutinize the costs and resources used to achieve program results. They look at timeliness and quality of transactions and operational

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structure. Assets are evaluated to determine if the district has acquired appropriate value based on the cost and that sound procurement practices have been employed. Auditors study the extent to which a program is achieving its goals and objectives. E&E audits can require around 900 hours of work, depending on the scope of district projects.

A compliance audit determines whether laws and regulations are met relative to the purpose of the program, the manner in which it is conducted, the outcomes and the cost incurred versus revenues received. Compliance audits provide taxpayers with a straight-arrow trail of accountability correlating to Proposition 39 restrictions, and can be accomplished in 100 to 150 hours.

Why it matters now

Senate Bill 423, Wyland, which is currently being debated in the Legislature, requires Proposition 39 audit reports to be delivered to Citizen Bond Oversight Committees by March 31 annually. While the original proposition required annual financial and performance audits, it did not specify a deadline. School boards must consider this deadline as they determine the appropriate audit and auditor.

Community college and K-12 boards need to be informed to make cost-effective choices regarding Proposition 39 audits as they move forward with the administration of their bonds and their audits. Assessing risk and determining which audit makes the most sense could save districts tens of thousands of dollars as they approach March 31, 2012.

For more information

Renee S. Graves, CPA, CGFM, has over 25 years of school district and community

college audit experience – with special emphasis in independent financial and compliance audits, Proposition 39 financial and performance audits, and single audits under Federal Circular A-133. She also helps education organizations improve their operations through internal control

reviews and recommendations and year-end closing and accounting assistance. Renee became a partner at VLS in 1993 and is a frequent speaker for the California Society of Certified Public Accountants, Association of Chief Business Officials, and California Association of School Business Officials.

Governor acts on other bills

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other bills, signing 33 bills and vetoing two. He took the following action on the K-12 education bills that were sent to him by the Legislature.

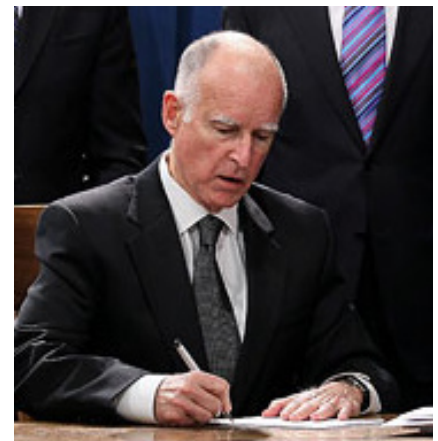
K-12 bills signed

AB 23 (Smythe) requires a member of a legislative body or the clerk of that body to announce, prior to holding a meeting simultaneously or in serial order, during a meeting of a legislative body where the members of the legislative body constitute at least a quorum of the legislative body of the other meeting, how much compensation or stipend the members will receive for the second meeting.

AB 169 (Torres) defines school districts to include county offices of education and other agencies or entities so that county offices and other agencies or entities will be eligible for federal funding distributed by the State Board of Education.

AB 782 (Brownley) allows CalPERS to assess a reasonable charge on employers to recover additional costs incurred when an audit of the employer takes an excessive amount of hours to complete.

AB 943 (Williams) increases the formal bidding threshold under the Uniform Public Construction Cost Accounting Act (UPCCAA) from \$125,000 to \$175,000. CASBO supports AB 943.



AB 1269 (Portantino) specifies that for merit system school districts, re-employment of classified employees after a layoff will be in order of seniority instead of the reverse order of layoff.

K-12 bills vetoed

AB 455 (Campos) proposed in public agencies that have established merit or personnel commissions, that the governing board of the public agency appoint one-half of the commission members, and appoint the other one-half as nominated by the recognized employee organization. In his veto message, Gov. Brown said the bill "imposes a top down, one-size fits all solution on all merit and personnel commissions statewide. This measure seeks to impose a level of state control that is inconsistent with my administration's efforts to realign state services and to increase local control."