K-12 Audit Questions and Answers

Q. Why did the Office of Public School Construction (OPSC) change the audit process from OPSC auditing School Facility Program (SFP) projects to CPA firms now performing the audits?

A. OPSC did not change the process; the process was changed due to changes made in the Education Code Section 41024.

Q. Where can I get information from OPSC about this new audit process, including which projects will require audits, audit tools, audit templates, etc.?

A. The California Department of General Services – OPSC website contains information related to the new audit requirements and process for SFP bond funds:

https://www.dgs.ca.gov/OPSC/Resources/Page-Content/Office-of-Public-School-Construction-Resources-List-Folder/K-12-Audit-Resource

Q. Who needs to have this audit performed?

A. Any Local Educational Agencies (LEAs) that received an SFP project fund release on or after April 1, 2017; they will need to have a Closeout audit performed upon completion of their construction project.

Any LEA that suspends construction of their SFP project or fails Substantial Progress reviews performed by OPSC (see more information on Substantial Progress reviews below) will be required to have a Reduced to Costs Incurred audit.

Usage of Savings. Any LEA that received an SFP project that was funded after April 1, 2017 and reported savings, must have a local audit performed for the usage of any savings on an annual basis until all SFP savings has been spent.

In addition, SFP projects that were added to the Unfunded List between May and October 2012 and received State Allocation Board (SAB) approval for placement on the Unfunded List (Lack of AB 55 Loans) on June 5, 2017, must also have a performance audit performed one year from the completion of their project or one year from final expenditure report.

Q. What is a "Substantial Progress Review"?

A. Pursuant to Education Code Section 17076.10 and the School Facility Program, the LEA shall be subject to a substantial progress review by the Office of Public School Construction per the Grant Agreement.

The LEA shall provide substantial progress documentation 18 months from the latest fund release per School Facility Program Regulation Section 1859.105.

For projects funded after April 1, 2017, OPSC will be verifying compliance with applicable statutes and program certifications. A district will be contacted and requested to provide documentation per the Substantial Progress Checklist. The district must submit the information to OPSC within 30 days, OPSC will review the information and determine if the district complied with Substantial Progress. If an LEA fails to meet substantial progress requirements, a letter stating this would be posted on the OPSC K-12 audit resource website referenced above for each SFP project.

Q. Will required audit procedures of the SFP projects be part of the required annual financial audit already done for all LEAs (part of "supplemental information" of that audit report)?

A. No, the required audit of SFP projects is a separate performance audit from the required annual financial audit of the LEA and will result in a separate performance audit report.

Q. What are the three different types of SFP bond performance audits that would be required?

A. Closeout Audit - Any Local Educational Agencies (LEAs) that received an SFP project fund release on or after April 1, 2017, will need to have a Closeout audit performed upon completion of their construction project.

Reduction to Costs Incurred (RCI) - Any LEA that suspends construction of their SFP project or fails Substantial Progress reviews performed by OPSC will be required to have a RCI audit.

Usage of Savings Audit - Any LEA that received an SFP project that was funded after April 1, 2017 and reported savings, must have a local audit performed for the usage of any savings on an annual basis until all SFP savings has been spent.

Q. "Use of Savings" can go on for multiple years; will there be a "Savings Audit" required every year?

A. Yes, a Savings Audit will be required for every year that an LEA expends its savings. The LEA would be required to submit to OPSC a "Use of Savings" report for every year that it expends savings, and the reported use of savings expenditures would be audited each year. For years where no savings dollars where expended, the LEA will be required to report to OPSC that no dollars were expended for that year, and no audit would be required for that year.

Q. When are audit reports due?

A. Audit reports for Completed Projects or Reduction to Costs Incurred (RCI) projects are due one year from the final submission of the Final Form SAB 50-06 Expenditure Report to OPSC. Audit reports for savings audits are due one year from the submission of the "Use of Savings" report to OPSC.

Q. What are the audit standards for these audits?

A. The audits must be performed in accordance with Government Auditing Standards (Yellow Book Standards – Reporting Standards for Performance Audits) issued by the Comptroller General of the United States) and in accordance with the K-12 Audit Guide – Appendix B, which can be found on the Education Audit Appeals Panel (EAAP) website http://eaap.ca.gov.

Q. Who should audit reports be submitted to?

A. Reports should be submitted to both the State Controller's Office (SCO) and the California Department of Education (CDE). SCO will review and certify the report (verify that the report was prepared in accordance with Government Auditing Standards).

Q. Where can I find audit checklists, examples, templates, etc. containing the components of a performance report that would be acceptable in the review and certification of the report by the State Controller's Office (SCO)?

A. The State Controller's Office webpage contains information related to checklists, examples, templates etc. for preparing the required performance audit report: California State Controller's Office: K-12 Local Education Agencies, Charter Schools, and Joint Powers Entities (LEAs)

Q. What qualifications should be considered in choosing a CPA to perform the SFP bond performance audit?

A. The CPA chosen should have knowledge, experience and training in the auditing of LEAs. The State Controller's Office webpage: California State Controller's Office: K-12 Local Education Agencies, Charter Schools, and Joint Powers Entities (LEAs) contains a listing of firms/individuals that have been certified as being in good standing by the California Board of Accountancy; these firms/individuals listed have been deemed qualified pursuant to Education Code section 41020(f) to conduct audits of K-12 local education agencies. However, in providing this listing, the State Controller's Office does not endorse any particular firm nor provide any assurances or guarantees regarding the quality or accuracy of the services provided by these firms .For further suggestions on selecting a CPA, please refer to the California Board of Accountancy's web site on "How to Select a CPA" at http://www.dca.ca.gov/cba/consumers/select-a-cpa.shtml. A CPA's most current status with the California Board of Accountancy can be found at http://www.dca.ca.gov/cba/consumers/lookup.shtml .

Q. Can different CPAs be used for the annual financial audit and the bond performance audit?

A. Yes, different CPAs can be used for the annual financial audit and the bond performance audit.

Q. Can I elect for my CPA to combine audits that are due in the same year?

A. Yes, as long as there is a separate audit report for each SFP project being audited and the audit report due dates are met for all projects being audited, audits may be combined.

Q. Are CPA audit fees for this performance audit eligible SFP expenditures?

A. No, these fees are considered administrative fees and not eligible for reimbursement under the program.

Q. Where can I get criteria and guidance in determining whether reported expenditures are eligible or ineligible in the SFP program?

A. The K-12 Audit Guide – Appendix B, which can be found on the Education Audit Appeals Panel (EAAP) website (Education Audit Appeals Panel | EAAP California) contains applicable references to Education Code Sections and SFP Regulations in auditing various expenditures. In addition, the Grant Agreement between OPSC and an LEA in Appendix G ("Advisory Listing Detailing Common Eligible Project Expenditures") and Appendix H ("Advisory Listing Detailing Common Ineligible Project Expenditures") will also provide criteria and guidance. In addition, an LEA can request assistance and guidance from OPSC in the determination of the eligibility/ineligibility of expenditures.

Q. Where can I get criteria and guidance for classifying and reporting expenditures into proper reporting categories?

A. The 50-06 Expenditure Report and Detailed Listing of Project Expenditures forms used for reporting SFP expenditures will provide the criteria for classification of expenditures. The California School Accounting Manual (CSAM) also provides criteria and guidance for classifying expenditures. In addition, the K-12 Audit Guide – Appendix B and the Grant Agreement also provide criteria and guidance. Finally, an LEA can request assistance and guidance from OPSC in determining proper classifying and reporting of expenditures.

Q. Are there different audit procedures for LEAs tied to their size (i.e. large-sized districts vs. small-sized)?

A. No, regardless of size, LEAs must all have their SFP projects audited in accordance with the audit procedures contained in the K-12 Audit Guide – Appendix B, which can be found on the Education Audit Appeals Panel (EAAP) website Education Audit Appeals Panel | EAAP California.

Q. In auditing LEAs of different size (large-sized vs. small-sized), is there different requirements for LEAs related to the Restricted Maintenance Account (RMA)?

A. In auditing RMA requirements, districts can certify to the State Allocation Board (SAB) that it can maintain its facilities with a lessor level of maintenance (lower percentage) from the RMA contribution requirement due to small size, as referred to in Education Code Section 17070.75(b)(2)(E). A district would need to meet one of the Average Daily Attendance (ADA) exception requirements detailed in Education Code Section 17070.75(b)(2)(E)(i-iii). If they do, they should submit a certification to the SAB through the Office of Public School Construction (e.g. cover letter with school board minutes attached documenting the lessor amount; documentation should be made available to CPA firm auditing the district).

Q. In auditing RMA requirements, the audit instructions mention that non-compliance found in this area may potentially result in a "Material Inaccuracy (MI)" that may be presented to the State Allocation Board. What is a Material Inaccuracy?

A. If an LEA falsely certifies to a certification they made as a condition of receiving funding then per SFP regulation section 1859.104.1 they may be subject to certain Material Inaccuracy Penalties such as apportionment reduction, returning funding to the state, interest penalties, and loss of self-certification. Based on the performance audit report that OPSC will receive, OPSC may use a finding from the audit for a project as a basis to recommend a Material Inaccuracy item to the State Allocation Board. If a CPA found that the LEA did not meet their "Restricted Maintenance Account Requirements" and did not take corrective action to fix the deficiency, this would be an example of a finding that may be presented to the SAB as a potential Material Inaccuracy per Education Code Section 17070.51.

Q. What are the audit requirements for the "Unfunded List" projects (Projects added to the Unfunded List between May and October 2012 and received State Allocation Board (SAB) approval for placement on the Unfunded List (Lack of AB 55 Loans) on June 5, 2017, and are not subject to a Grant Agreement)?

A. These projects are still subject to the performance audit requirement in Education Section 41024. Where applicable, appropriate audit procedures contained in in accordance with the K-12 Audit Guide – Appendix B must be completed, including procedures related to purchased computers in Section VI of the Guide.

Q. The audit instructions contain audit procedures to verify "date of occupancy." Do these procedures apply to both new construction and modernization projects?

A. No, these procedures will only apply to new construction projects.

Q. Can a LEA still change their Final 50-06 Expenditure Report which will be audited by a CPA after they have submitted it?

A. Once a Final 50-06 Expenditure Report has been submitted, it cannot be changed by the LEA; this Final Report would be the report audited by the CPA in the required performance audit.

Q. Will OPSC perform a "preliminary review" of a 50-06 Expenditure Report before the Final 50-06 is submitted by an LEA for audit?

A. An LEA may request OPSC to perform a review of their 50-06 Expenditure Report prior to final submittal, both for a regular close-out audit and a savings audit. Please note the ability/availability of OPSC to perform this review would be tied to OPSC current workload priorities and issues and that this review would be a "soft preliminary review" of the 50-06 and would not involve the full review of supporting audit documentation that OPSC had performed in the past; that review would now be performed by the CPA.

Q. If a Final 50-06 Expenditure Report has reported overspent expenditures, and the performance audit results in audit findings for ineligible expenditures, but the deduction of these ineligible expenditures from reported expenditures still results in the project being overspent, would these ineligible costs need to be returned to the State?

A. Even if the project's overspent amount is greater than the ineligible costs, these ineligible costs would now be returned to the State under these current audit requirements. An LEA should only report eligible costs for their projects on their Final 50-06.

Q. If an LEA does not agree with an audit finding from the CPA's performance audit report, what is the appeal process for audit findings?

A. Education Code Section 41024 states that:

- An LEA may appeal a finding pursuant to Section 41344(d)
- Section 41344.1(d), informal appeals process, does not apply.

Upon receipt of the State Controller's Office certification of the audit report, the LEA has 60 days to request an appeal from EAAP (appeal must arrive by day 60).

The State Controller is a party to every appeal; in addition, the Department of Finance, Department of Education, and the Office of Public School Construction may also intervene as parties.

An LEA may file a notice of appeal with EAAP (www.eaap.ca.gov)

- In writing: 770 L St. Suite 1100, Sacramento Ca. 95819
- Email: filing@eaap.ca.gov
- Fax: 916.445.7626

Include the following information in the request:

- LEA name
- SFP Project number
- Fiscal year audited
- Statement that LEA is requesting a formal appeal
- Finding number(s) for which appeal requested
- Contact person and telephone number

Q. What if the performance audit results in a grant increase? How do I proceed to get an increase?

A. Upon receiving the final reviewed and certified audit report from the State Controller's Office (and resolution of any EAAP appeals), OPSC will review the report for any necessary grant increases and will prepare a Board item for the State Allocation Board for approval for a grant increase for an LEA.

Q. Will the final audits be posted on the OPSC Website?

A. When OPSC receives the final audit report which has been reviewed and certified by the State Controller's Office (and resolution of any EAAP appeals), the report will be posted to the OPSC website.