

Recap of 12/11/09 Performance Audit Meeting

Meeting participants:

For Nigro Nigro & White: Christy White, James K. Hawley, Heather Daud

For ICOC: Gil Johnson, John Gordon, Larry Goshorn (ICOC consultant)

For SDUSD: Stuart Markey, George Harris, Jodie Macalos

On Friday, December 11, 2009, SDUSD staff met with members of the Independent Citizens Oversight Committee and staff from Nigro Nigro & White ("NNW") to discuss the Performance Audit for the Prop S Bond program. The goal of the meeting was to agree upon a framework for moving forward with the audit in 2010 and beyond that met the legal requirements of Prop 39, the Ed Code, Proposition S, serves as an important information and management tool for staff, and informs the Board and the public of the progress of the program.

This memo provides a brief overview of the meeting and identifies the work to be completed as its result.

Key Points of Agreement:

NNW presented a document, "Proposition S Performance Audit – Planned Audit Procedures by NNW" ("NNW Scope"), that clarified the activities the firm committed to accomplish in executing its contract with SDUSD (attached). After discussion of NNW's audit procedures, the participants agreed that the identified procedures appeared to satisfy the legal requirements for the financial audit and the financial elements of the performance audit.

Larry Goshorn presented a draft document prepared at the direction of, but not yet reviewed by, the Audit Subcommittee. The document, titled "Sample scope of work description for comprehensive bond Performance Audit" ("ICOC Scope", attached), identified six performance audit categories. The ICOC members present agreed that the draft document fairly represented their objectives for the Prop S performance audit.

The participants agreed that the NNW Scope achieved two of the six performance audit categories in the ICOC Scope. The participants further agreed that NNW did not possess the in-house expertise for some of the added activities. To complete those added activities, NNW could bring in subconsultants for added expertise or the District could procure it separately.

SDUSD Prop S

Date:12/16/09

Independent Citizens' Oversight Committee

Next Steps:

SDUSD staff will prepare a Notice to Proceed/Work Authorization confirming that the activities included in the NNW Scope constitute the activities to be performed Contract No. [PS-90-699-20](#). Participants agreed that added procurement action would be needed to accomplish the added activities.

By 12/31/09 SDUSD staff, the ICOC consultant and NNW will: 1) define the additional activities to be included in a broader performance audit, 2) establish a budget sufficient to achieve the additional activities, 3) determine the parties that will perform the additional activities, and 4) determine the procurement methodology and resulting reporting structure for managing the additional activities. These items will be reviewed by the Audit subcommittee prior to consideration by the ICOC.

NNW will conduct its procedures under according to the timeline previously presented, leading to production of its final financial audit. The exception to the previously presented timeline is that NNW will not publish the final performance audit per the current contract until such time as the method for completing the additional activities is determined.

Prepared by:

Larry Goshorn (Colbi Technologies)

George Harris (San Diego Unified School District)

Proposition S Performance Audit – Planned Audit Procedures by NNW
Proposition S
For the Fiscal Year Ended June 30, 2009

Basic Objective

A performance audit conducted in accordance with Article 13A of the California Constitution and Proposition S ballot language. Both require the auditor to “ensure that the funds have been expended only on the specific projects lists.” This would include items listed in Parts 1 and 2 of the Proposition.

Proposed by NNW (and included within contract fee)

A financial and performance audit to satisfy Article 13A and utilizing the *Government Auditing Standards* for Performance Audits. Note that for every audit we perform we: (1) ensure our independence; (2) plan the engagement; (3) design tests based on audit and fraud risk assessments; (4) communicate to management, the oversight committee and board; (5) supervise the audit work; (6) employ internal quality control procedures; and, follow AICPA *Generally Accepted Auditing Standards*. Our firm’s system of quality control has been given an unqualified opinion by our peer reviewers.

In our proposal and contract we agreed to conduct the following procedures:

1. Internal Control Understanding and Documentation (includes approvals, compliance, needs assessment, project expenditure tracking, development of budgets, how the District is meeting sustainability standards, issuing bonds to manage tax rate) (Note: we will obtain and document our understanding of internal control and report weaknesses. An opinion on internal controls will not be rendered under the scope of the original contract.)
2. Fraud Risk Assessment and Inquiries, in accordance with Statement on Auditing Standard #99
3. Independent Citizen’s Oversight Committee (ICOC)
 - a. Minutes review
 - b. Proper establishment of the committee
 - c. Ensure financial amounts provided to ICOC agree to official accounting records
 - d. ICOC review and acceptance of annual audits
4. Analytical Review of Financial Amounts
5. Verification of Balance Sheet Account Balances for the Building Fund – Proposition S
6. Substantiation of Revenue (e.g.; bond proceeds, interest and interfund receipts)
7. Substantiation of Expenditures - from a list of expenditures paid by project we:
 - a. Examine invoices, purchase orders and contracts
 - b. Test allowability and compliance with legal requirements
 - c. Test that expenditures are described in budget and facilities planning document; including, but not limited to: site discretionary fund allocations and expenditures and salaries
8. Test of Contracts and Bid Requirements - from a list of contracts we:
 - a. Examine bid documents and contractor selection methods for compliance with PCC
 - b. Compare total expenditures to total contract
 - c. Examine change orders for approvals and legal requirements
 - d. Examine bid security and insurance
 - e. Consider fraud and audit risk assessment and customize audit tests (note: if indications of fraud are found, it will be communicated to the proper level of the organization and a fraud investigation recommended)

Proposed by NNW (and included within contract fee)(continued)

9. Facilities Inspections (i.e.; site walks to verify project expenditures were made in accordance with Part 1 and 2 of Proposition S and approved facilities plans)

Additional Procedures NNW could perform:

1. Evaluate funding sources to leverage bond proceeds
2. Test specific compliance with sustainability standards (some collaboration with facilities specialist might be required)
3. Best practices in the area of project accounting, budget tracking and control, bid and procurement procedures (also included in basic audit but expanded tests could be expanded), expanded payment procedures
4. Verify public outreach program activity
5. Coordinate with a facilities specialist (AU Section 336)

Procedures NNW could coordinate with a facilities or other specialist:

1. Cost savings efforts
2. Quality of construction
3. Effectiveness of bond related programs, such as labor compliance
4. Staffing and program management plans (some collaboration with facilities specialist is recommended)

Audit Report Content

Summarize Results of Audits, preparing:

- a. Financial Statements and related notes
- b. Audit opinions (financial and performance and GAAS opinion)
- c. Supplemental schedules (expenditures by project, a budget to actual comparison)
- d. Findings and recommendations

The audit report will include the objectives, scope, and methodology; the audit results, including findings, conclusions, and recommendations, as appropriate; a reference to compliance with generally accepted government auditing standards; the views of responsible officials; and, if applicable, the nature of any privileged and confidential information omitted. The audit report should also include any significant deficiencies in internal control, all instances of fraud and illegal acts unless they are clearly inconsequential, significant violations of provisions of contracts or grant agreements, and significant abuse.

In addition the report could include: budget reports, project tracking and status reports, background information on Proposition S, district policies and procedures, example program management forms used, staffing lists and the results of any facilities expert's review. This would in addition to the basic report originally proposed.

Sample B:

**Sample scope of work description for comprehensive bond Performance Audit
That complies with legally mandated Prop39 requirements for Proposition S:**

Objectives and Scope:

Conduct a performance audit of the Proposition S bond construction program (Bond) in accord with Government Auditing Standards (GAO-070731G) for the following interrelated purposes:

- 1) Evaluate compliance with Proposition S Requirements and controls established to assure efficiency and effectiveness of the construction program
 - a) Evaluation of Needs
 - b) Bond Issuance Limitation
 - c) Independent Citizens' Oversight Committee (ICOC)
 - d) Annual Performance audits
 - e) Annual Financial Audits
 - f) Special Bond Proceeds Account Annual Report to Board
 - g) Other Terms of the Bonds
 - h) Compliance with state laws
- 2) Validate expenditures against Bond requirements and contract terms and conditions
 - a) Bond Project List
 - b) Bond Sustainability Standards
 - c) Compliance with CA Public Contract Code
 - d) Expenditure reporting to Board and ICOC
- 3) Evaluate use of other funding sources to leverage Bond proceeds
 - a) Compliance with Application, Receipt, Use, Reporting & Audit procedures (Find \$'s, Get \$'s, Keep \$'s)
 - i) State New Construction and Modernization
 - ii) E-Rate
 - iii) State & Federal Stimulus Funding
 - iv) Other funding sources
- 4) Evaluate Cost Saving Efforts
 - a) Reduction of Professional fees
 - b) Reduction of site preparation costs
 - c) Joint use of core facilities
 - d) Reduce costs through efficiencies in school design
 - e) Reuse of plans
 - f) Sustainability & Life Cycle Cost Analysis
- 5) Best Practice & Cost Effectiveness Evaluation of Bond Management Practices
 - a) Scope, Schedule, and Budget controls
 - b) Management of Architects and other Consultants
 - c) Design and Construction Standards
 - d) Bidding and Procurement Procedures
 - e) Management of Construction
 - i) Quality Control
 - ii) Change Orders and Claims Avoidance
 - f) Payment Procedures
 - g) Staffing Plan
- 6) Validate Implementation and/or Effectiveness of Bond related programs
 - a) Labor Compliance Program
 - b) Contractor Pre-Qualification
 - c) Project Labor Agreement

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**"ICOC Scope"
Attachment**

- d) Public Outreach Programs
 - i) Participation by Local Firms
 - ii) Participation by Small and Disadvantaged businesses
 - iii) Participation by Disabled Veteran Business Enterprises (DVBE)
- e) Community Communications and Outreach

Tasks:

Specific tasks include, but are not be limited too, sampling and/or review of:

- 1) Voter material and Bond documents
- 2) Facilities planning documentation
- 3) Documentation of internal controls, policies, and procedures
- 4) Prior and relevant audits
- 5) Bond Management Plan
- 6) Staffing plans
- 7) Status of Bond projects
- 8) Procurement bid and award documentation
- 9) Contracts
- 10) Payment applications and invoices
- 11) Relevant financial records and transactions
- 12) Board of trustee and citizens' oversight committee reports
- 13) Board of trustee agenda packets and minutes
- 14) Interviews with district personnel and stakeholders
- 15) Site walks

Deliverables:

Performance Audit report must address, but is not limited to addressing, the following subjects:

- 1) Bond proceeds used only for listed Bond projects, and use is limited to allowed purposes; CA Constitution Article XIII A Section 1(b)
- 2) Listed Bond projects based on evaluation of safety, class size reduction, and information technology needs
- 3) Annual independent performance audits of Bond have been completed
- 4) Annual independent financial audits of Bond have been completed
- 5) Implementation and effectiveness of cost saving efforts
- 6) Identification, acquisition, and status of augmenting funding sources
- 7) Management Practices
- 8) Bond related programs

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