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# Memo

**To** Board of Education

**From** Jacqueline Minor, General Counsel

**Board Meeting Date** August 27, 2014

**Subject** **Approval of the Letter of Engagement with Yano Accountancy for the Year End June 30, 2014 Measure B and J Compliance Audit**

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**Action Requested** **Approval of the Letter of Engagement with Yano Accountancy for the Year End June 30, 2014 Measure B and J Compliance Audit**

**Background** The California Education Code requires an annual audit be submitted to the citizens' oversight committee for Measure B and J bond funds. Yano Accountancy, an Oakland based CPA firm has conducted the audit of Measure B bond funds for several years.

**Discussion** Under the Letter of Engagement, Yano Accountancy is being retained to conduct the annual audit for Measures B and J as provided by the voter approved bonds. The current letter of engagement covers the 2013-14 audit at a sum not to exceed \$53,000

**Recommendation** **Approval of the Letter of Engagement with Yano Accountancy for the Year End June 30, 2014 Measure B and J Compliance Audit**

**Fiscal Impact** Funding resource name: Measure B/J -- not to exceed \$53,000

**Attachment**

- Letter of Engagement

# *Nano Accountancy Corporation*

Litigation and Financial Consulting • Forensic Accounting  
Certified Public Accountants

August 5, 2014

Honorable Members of the Governing Board, and  
Members of the Measures A, B and J Independent  
Citizens' School Facilities Bond Oversight Committee  
Oakland Unified School District  
1000 Broadway, Suite 680  
Oakland, CA 94607

Dear Members:

Thank you for the opportunity to be of continued service to the Oakland Unified School District. We are pleased to present this proposal to perform the financial and compliance audits of Bond Measure B and Bond Measure J for the year ended June 30, 2014.

## **STATUTORY REQUIREMENTS**

Bond Measure B and Bond Measure J legislation, as approved by the voters in 2006 and 2012, respectively, include the following audit requirements:

“...annual, independent financial audit of the bond proceeds...” and “...until all of the proceeds have been spent for the school facilities projects...”

“...an annual independent performance audit to ensure that bond proceeds have been expended only on the school facilities projects ...”

California Education Code §15286 states that:

“...the required annual, independent financial and performance audits for the preceding fiscal year shall be submitted to the citizens' oversight committee established pursuant to Section 15278 by March 31 of each year. These audits shall be conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States for financial and performance audits...”

*Government Auditing Standards* issued by the Comptroller of the United States are commonly known as generally accepted government auditing standards (GAGAS). GAGAS for financial audits incorporates all auditing standards generally accepted in the United States of America (US GAAS) by reference, so financial audits under GAGAS must also comply with US GAAS.

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## **SCOPE OF WORK**

This is the first year that bond proceeds have been spent from both Bond Measure B and Bond Measure J issuances. We therefore will conduct a financial audit of the Combined Schedule of Measure B and Measure J Bond Revenues and Expenditures ("Combined Schedule") for the year ended June 30, 2013 in accordance with GAGAS for financial audits and US GAAS. The Combined Schedule will have separate columns for Bond Measure B and Bond Measure J.

We also will conduct a performance audit of Bond Measure B and Bond Measure J bond expenditures in accordance with GAGAS for performance audits to determine whether such expenditures were spent only on the projects approved by the legislation.

### **Financial Audits Performed in Accordance With Generally Accepted Government Auditing Standards And Auditing Standards Generally Accepted in the United States Of America**

A financial audit in accordance with GAGAS and US GAAS includes tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion is other than unqualified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or to issue a report as a result of this engagement.

In accordance with GAGAS, we also will issue a report on our consideration of OUSD's internal control over financial reporting as it pertains to OUSD and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting, compliance or other matters. We will not give such an opinion. This report is an integral part of a financial audit performed in accordance with *Government Auditing Standards*.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of certain assets and liabilities by correspondence with selected creditors, and financial institutions. We will also request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to OUSD or to acts by management or employees acting on behalf of OUSD.

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Because an audit is designed to provide reasonable, but not absolute, assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform you of any material misstatements that come to our attention, and we will inform you of any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our audit will include obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed. An audit is not designed to express an opinion or to provide any other assurance on internal control or to identify significant deficiencies in the design or operation of internal control. Accordingly, we will not express an opinion on the effectiveness of OUSD's internal control. However, during the audit, if we become aware of such significant deficiencies, we will communicate them to you.

#### **Performance Audits Performed in Accordance With Generally Accepted Government Auditing Standards**

Our performance audit will evaluate whether bond proceeds were spent only on the projects identified in the two bond measures. We specifically will evaluate the supplementary schedules of expenditures by project to confirm that the schedules include only projects allowed by the two bond measures, and evaluate whether expenditures are for the specific projects listed. We also will look at internal controls over procurement and expenditure approval.

We also will evaluate OUSD Facilities expenditures funded with Measure B and Measure J for compliance with bond measure requirements. As part of the evaluation of OUSD Facilities expenditures, we will look at the allocation of these expenditures between Measure B and Measure J.

Because the scope of work also includes a financial audit in accordance with GAGAS and US GAAS, certain procedures that would have been performed during a stand-alone performance audit are performed as part of the financial audit. Any findings applicable to both the financial and performance audits are included in the financial audit section of the report.

#### **Procedures Common to Both the Financial And Performance Audits**

A number of procedures are common to both the financial and performance audits. We maximize both our audit effectiveness and audit efficiency by combining the procedures for both audits to the extent practicable.

#### **Audit Planning**

This phase will focus on understanding the District's organization and its operating environment for the Bond Program in order to formulate an audit strategy. This is accomplished by performing the following:

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- Conduct an entrance conference with appropriate personnel to discuss areas of concern, new developments, background information, time frames and the appropriate lines of communication.
- Prepare a document request of the schedules, statements and documents necessary to complete the audit. Normally the document request is given to the client in advance in order to allow sufficient time to compile the information.
- Review of any prior year's audits that disclose information about the District's bond funds or program.
- Perform risk assessments to evaluate audit risk considerations will be prepared for material account balances and classes of transactions to identify areas and types of testing to be performed.
- Determine materiality levels will be determined for each fund and account type.
- Prepare audit programs to best accomplish our audit objectives.

#### **Follow-Up on Prior-Year Audit Findings**

GAGAS for both financial and performance audits require that we follow up on prior-year audit findings of all relevant audits. Accordingly, we will follow up on not only any findings from our prior year financial and performance audits, but also on all relevant audit findings from other audits performed on OUSD.

#### **Internal Controls**

This phase concentrates on the evaluation of the organization's internal controls and tests of compliance. We will obtain an understanding and evaluate OUSD's internal control structure for the bond program and test transactions as deemed necessary. In this phase, the engagement team will gain a greater understanding of the OUSD's bond program and obtain information necessary to select specific areas for further evaluation in the detailed phase. The significant internal control cycles we will evaluate are the following:

- Bond revenues and cash management
- Purchasing and cash disbursements
- Payroll and personnel policies and procedures
- Procurement policies and practices
- Compliance with applicable state laws, regulations, guidelines

#### **Substantive Procedures**

Based on our review of internal controls, we will assess how well OUSD has met its goals and perform detailed testing of balances and transactions of the District's Building fund, with an emphasis on the allowability, reasonableness and accounting on the accrual basis. In order to accomplish these tasks, the following approach will be taken:

- Substantive testing of material account balances is performed in order to ensure appropriateness, allowability and reasonableness.

- Test cash disbursements to determine if costs are allowable as indicated in the Bond Measure, Public Contract Code and in accordance with District procedures and guidelines.
- Assess whether the bond project management have achieved its stated goals and objectives by evaluating results of programs put in place to achieve those goals and objectives.
- Evaluate the bond project management's ability to achieve proposed or newly established objectives.
- Assess whether performance measures have been used as part of effective management control systems to measure, report and monitor project results.
- Analyze outcomes, achievements, and related effects for the selected programs and activities to identify the overall impact of the programs- both negative and positive effects.
- Analyze project costs in relation to reported results or outcomes to obtain indicators of project efficiency problems. Evaluate the reasonableness of project results in relation to project costs.
- Evaluate the presentation of the Schedule of Bond Measure B Revenues and Expenditures for accuracy, clarity and complete and proper disclosure.
- As appropriate, chart trend data of project results to show the effectiveness of the selected projects.
- An exit conference is convened with appropriate personnel to summarize the audit and to discuss our findings and recommendations.

### **Deliverables**

We will issue the following reports upon the completion of all of our audit procedures:

- Independent Auditors' Report on the Combined Schedule for the year ended June 30, 2014. This report will include our opinion on the Combined Schedule, and our report on the Supplementary Schedule of Bond Measure B Expenditures by Project, and Supplementary Schedule of Bond Measure J by Project, in relation to the Combined Schedule.
- Independent Auditors' Report on Internal Control, Compliance and Other Matters. This report includes our findings on internal control over the preparation of the Combined Schedule of Bond Measure B and Bond Measure J Revenues and Expenditures, compliance with laws and regulations, and other matters such as abuse. Please note that since the objective of a financial audit is the expression of an opinion on the Combined Schedule of Bond Measure B and Bond Measure J Revenues and Expenditures, we will not form an opinion on internal control.
- Independent Auditors' Report on the Performance Audit. This report describes the objectives, scope, methodology and results of our performance audit.
- Report to the Members of the Governing Board and Members of the Measures A, B and J Independent Citizens' Oversight Committee. US GAAS requires us to report to those charged with governance on certain subjects related to the planning, performance and results of our audit. This report is issued under separate cover from the other reports.

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### **OUSD Management Responsibilities**

OUSD management has a number of responsibilities as part of an audit in accordance with GAGAS and US GAAS. These responsibilities include the establishment and maintenance of adequate records and effective internal controls over financial reporting, the selection and application of accounting principles, and the safeguarding of assets. OUSD management is also responsible for adjusting the financial schedule to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial schedule taken as a whole.

OUSD management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the company involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial schedule. OUSD management is also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the company received in communications from employees, former employees, regulators, or others. In addition, OUSD management is responsible for identifying and ensuring that OUSD complies with applicable laws and regulations.

### **YOUR AUDIT TEAM**

The Yano Accountancy Corporation/BCA Watson Rice (YAC/BCA) team will again be your audit team. The YAC/BCA team has performed the Measure B financial and performance audits for the years ended June 30, 2011-2013, and BCA Watson Rice led the Measure B audits for the years ended June 30, 2007-2010.

Eugene Yano, MBA, CPA; Valerie Logan, CPA; and Katherine Yoshii, MA will again form the core audit team. Eugene is the YAC Managing Principal and has led the Measure B audits for each of the past three years. Valerie, from BCA Watson Rice, has worked with YAC on the past two audits, and was part of the audit team prior to YAC becoming the lead firm. Katherine, from YAC, has led the fieldwork for each of the past three years.

### **PEER REVIEW**

In compliance with GAGAS, our most recent peer review report is publicly available on the American Institute of CPAs website at:

<https://peerreview.aicpa.org/publicfile/DocDefault.aspx>

We received a peer review rating of "Pass", a conclusion that our system of quality control has been suitably designed and complied with to provide us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

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**TIMING AND FEES**

The following timeline will serve as a guide to give OUSD an indication of our proposed schedule. We will modify this schedule to meet the needs of OUSD:

	<u>Number of Days</u>
Conduct an entrance conference with appropriate personnel	Start date to be determined
Planning phase	Day 1
Interim field work	Days 1-5
Detailed field work	Days 6-25
Preliminary report	Days 26-29
Draft and final report	Days 30-40

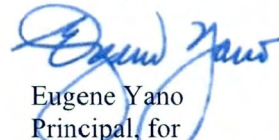
The proposed fee for the audits for the year ended June 30, 2014 audits is \$53,000. The reason for the increase from the June 30, 2013 audit fee of \$33,160 is that we are required to give an opinion on both Measure B and Measure J expenditures as if they were separate funds, even if we present both funds in one audit report. We will gain some efficiencies by performing the audits of both funds at the same time.

Our proposed fee is based on the scope of work described in this engagement letter. Should there be any changes to the scope of the work, we will contact you promptly to discuss any fee adjustments. Examples of scope changes include the issuance of separate audit reports on Measure B and Measure J, and the review of any reports that includes our audit reports, either in whole or excerpts. The review of other reports that includes information included in our audit report (either in whole or in part) is a recent US GAAS requirement.

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Again, we appreciate the opportunity to be of service to OUSD. You have my personal commitment, as well as that of all BCA Watson Rice and Yano Accountancy Corporation professionals, to quality and timely service. Please contact me at 510/482-9970 if you have any questions.

Sincerely,



Eugene Yano  
Principal, for  
Yano Accountancy Corporation



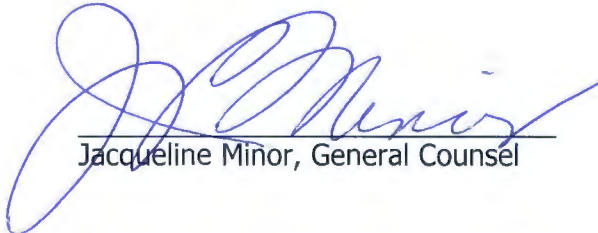
**Agreement with Yano Accountancy Corporation Year End 2013-14  
Measure B and J Bonds Audit**

IN WITNESS WHEREOF, the parties hereto agreed to be bound and have executed this Agreement on the day first mentioned above.

  
8-28-14  
Anwan Wilson, Superintendent and Board Secretary

  
8-28-14  
President, Board of Education  
Oakland Unified School District

Approved As to Form

  
Jacqueline Minor, General Counsel

OUSD or the District verifies that the Contractor does not appear on the Excluded Parties List at [www.epls.gov/epls/search.do](http://www.epls.gov/epls/search.do).

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Bv: