

*OUSD Bond Measure B
Financial and Performance Audits*



Presentation to Those
Charged With Governance
for the year ended June 30, 2013

Presentation Outline



- Scope of work
- Limitations of a financial audit
- Internal control
- What's in the report
- Audit results
- Follow-up on prior year findings

Scope of Work

- Bond Measure B complies with the requirements of California Proposition 39
 - “...annual, independent financial audit of the bond proceeds until all of the proceeds have been spent for the school facilities projects listed...”
 - “...annual independent performance audit to ensure that bond proceeds have been expended only on the school facilities projects listed...”

Scope of Work, Continued

- California Education Code §15286 was amended recently
“...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 (aka “GAGAS”) for financial audits incorporates auditing standards generally accepted in the United States (“US GAAS”) by reference

Scope of Work, Continued



- GAGAS requires us to consider, and perform tests of, internal control over financial reporting, compliance with laws, regulations and contractual provisions, and other matters to include abuse, that could have a material impact on the financial schedule
- We also consider, and perform tests of, internal control for the performance audit, such as contractor bidding and selection

Limitations of an Financial Audit Under GAGAS and US GAAS

- An audit is designed to provide reasonable, but not absolute, assurance
- We did not perform a detailed examination of all transactions
- A risk exists that material misstatements may exist and not be detected by us
- 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

Internal Control Deficiencies

- A material weakness is “...a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial schedule will not be prevented, or detected and corrected on a timely basis.”
- The severity of a deficiency, or combination of deficiencies, does not depend solely on whether a misstatement has actually occurred

What's in the Report

- Report of Independent Auditors on the Financial Audit (Opinion)
 - Financial Schedule and Accompanying Notes
 - Supplementary Schedule of Expenditures by Project
- Report on Internal Control Over Financial Reporting, Compliance and Other Matters

What's in the Report, Continued



- Report on the Performance Audit
 - Schedule of Performance Audit Findings
 - Background (in the Appendix)
 - Objectives, Scope and Methodology (in the Appendix)
- Status of Prior Year Recommendations

Financial Audit Results

- Unmodified opinion on the financial schedule and supplementary schedule of expenditures by project
 - \$41,258K of Measure B funds available at June 30, 2013, out of \$381,942K of bond proceeds plus cumulative interest earned on unexpended proceeds
 - Current year expenditure adjustments include the following:
 - \$1,500K increase in expenditures due to the June 2014 settlement of a claim for expenditures that occurred prior to June 30, 2013 (OUSD adjustment)
 - \$3,480K increase in unaudited expenditures due to credits recorded twice (audit adjustment)
 - \$2,122K reclassification of expenditures among projects – affects only the supplementary schedule of expenditures by project (audit adjustment)

Financial Audit Results, Continued



- Material weakness due to inadequate controls to prevent and/or detect the two misstatements that resulted in audit adjustments
- Ongoing compliance issue with construction progress payments being paid within 30 days
 - We've observed that contractors have been allowed to submit incomplete payment applications, and the 30-day payment deadline may have started earlier than necessary
 - We understand that OUSD is addressing the 30-day payment issue
 - this is a follow-up items under GAGAS for the 2013-2014 audit

Performance Audit Results



- The two financial audit findings were incorporated by reference as performance audit findings
- No other performance audit findings

Follow-Up on Prior Year Findings



- The two current-year findings are directly or indirectly attributable to conditions existing during the prior year
- Three other findings (interest income, employee and consultant conflicts of interest, and assurance on contractors not being “excluded” from participation) have been implemented.



Questions?