

---

# The FISCAL REPORT an informational update

---

Copyright © 2011 School Services of California, Inc.

Volume 31

For Publication Date: August 5, 2011

No. 16

## Guest Article—Overpaying the Auditor? New Senate Bills Clarify Requirements for Proposition 39 Audits

By Abigail Stokes Palsma, Vicenti, Lloyd & Stutzman

*[Editor's note: California Association of School Business Officials (CASBO) News recently carried an [excellent article](#) authored by the accounting firm of Vicenti, Lloyd & Stutzman (VLS) regarding school district responsibilities for Proposition 39 audits. The original authority for these "efficiency and effectiveness" audits was Proposition 39 of 2000, and the requirements have recently been amended by Senate Bill 1473 (Chapter 294/2010). We think it bears recognition when a provider of services, in this case audits, explains carefully to clients how to right-size the scope of the service to meet objectives but to also minimize costs. We commend both CASBO and VLS for offering school districts cost effective alternatives during these times of fiscal distress.]*

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 January 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 K12 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 tax payers' 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 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.

posted 07/29/2011