

Source: 2016-17-Guide for Annual Audits of K-12 Local Education Agencies-and State Compliance Reporting

The following represent the procedures related to Local School Construction Bonds that are included in the State Audit Guide.

### **FINANCIAL AUDIT PROCEDURES**

Determine whether the bond fund financial statements present fairly, in all material respects, the financial position of the fund for the year ended, and the results of its operations for the period then ended, in conformance with accounting principles generally accepted in the United States of America.

Test internal control over financial reporting and compliance with laws, regulations, or provisions of contracts or grant agreements.

If deficiencies in internal control, noncompliance with laws, regulations, or provisions of contracts or grant agreements; fraud; or abuse; are identified, describe them in a finding.

### **PERFORMANCE AUDIT PROCEDURES**

Select a representative sample of expenditures charged to the facilities project(s) and review supporting documentation to ensure that such funds were properly expended on specific projects listed in the text of the applicable ballot measure.

Verify that the funds were generally expended for the construction, renovation, furnishing, and equipping of school facilities constituting authorized bond projects.

Verify that the funds used to pay the salaries of district employees were allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

If the school district did not properly account for the expenditures, if such expenditures were made for unauthorized bond projects, or if salary transactions were used for general administration or operations, include a finding in the audit report.

Christy White Associates

## Sample of Procedures Performed for Newark USD Measure G Audit

Please note that the following is not a complete list of procedures performed in the audit.

### **FINANCIAL AUDIT PROCEDURES**

Obtain an understanding of the client, its internal control, and its audit risk factors by. If we are auditing the District's basic financial statements, describe how our documentation for the District's overall systems specifically apply to our audit of the bond funds.

**Interviewed key personnel within the District. Obtained an understanding of internal controls throughout the District primarily related to payroll and human resources, cash disbursements, cash receipts, and journal entries.**

Trace cash in County Treasury to confirmation or report received from the County. Determine fair value of cash in County Treasury by analyzing County Treasurer reports as of the balance sheet date. For cash with fiscal agent or other investments held outside the county treasury, determine where cash is invested for disclosure in the footnotes to the financial statements (for example, by reviewing trustee statements). Obtain information as to investment rating and weighted average maturity as of the balance sheet date to verify proper footnote disclosure. Consider confirming non-County Treasury accounts or tracing ending balances to properly reconciled bank or trustee statements.

**Traced June 30, 2017 cash in county treasury balance to report provided by Alameda County Office of Education.**

Audit accounts receivable by tracing to supporting documentation.

**Traced Accounts Receivable amount to 4<sup>th</sup> quarter 2017 interest statement.**

Review interfund activity and obtain explanations for all interfund receivables and payables.

**Determined amount due from Special Reserve Fund for Capital Outlay Projects was proper.**

## Christy White Associates

### Sample of Procedures Performed for Newark USD Measure G Audit (continued)

Audit accounts payable by performing the following tests:

- Vouch significant amounts by tracing to invoices or contractor's certificates for payment for goods or services received on or before June 30.
- Perform a search for unrecorded liabilities by selecting a sample of disbursements made after June 30 (for example, from the client's warrant register) and determining whether the payments were for goods or services received on or before June 30, and by tracing amounts that should have been accrued as accounts payable to the client's accounts payable accrual listing. Determine that retentions related to construction payments not paid into escrow accounts have been accrued as accounts payable as of the balance sheet date.

**Selected nine warrants paid in 2017-18 and determined that five related to 2016-17 and should be accrued. All five were properly accrued. Selected three additional amounts included on the accounts payable detail at June 30, 2017 and determined they represented valid accounts payable.**

If debt (i.e., general obligation bonds) was issued during the year, trace receipt of debt proceeds to the Official Statement. Ensure that the debt proceeds are reported at face value and that all discounts, premiums, and issuance costs are properly reported at gross (see 2008 California School Accounting Manual at Procedure 705 - General Obligation Bonds).

**Verified that the Series C bond issued during the year was recorded properly.**

Christy White Associates

Sample of Procedures Performed for Newark USD Measure G Audit (continued)

#### **PERFORMANCE AUDIT PROCEDURES**

Select a sample of expenditures charged to the Bond Building Fund and test for the attributes listed below.

- Verify each expenditure had proper approval, invoice, and purchase order
- Expenditure appears to be appropriate to Fund, Resource, Function, and Object
- Compare amount to supporting documentation
- Expenditure allowable based on review of ballot language and authorized bond projects

**15 expenditures tested were primarily to BRCO Constructors, D.L. Falk Construction, and Vanir.**

Test a sample of payroll expenditures as part of the expenditure testing. Inquire of client personnel and inspect records to determine whose salaries are charged to the bond program, how salary allocations to the bond program are determined, and how often salary allocations are reviewed by management. Determine if the salary allocation plan is reasonable and allowable under the bond language and/or California Constitution Article 13A, which prohibits charging administrators' or teachers' salaries to the bond program. Determine whether an individual's compensation is appropriately charged to the bond program by inquiring of employees or contractors whose salaries are charged to the bond program, and by reviewing personnel records.

**One employee charged to the bond fund is Director of Maintenance, Operations and Transportation and is allowed to be charged.**

Select a sample of projects and test to determine whether proper bidding procedures were followed.

**No approved contracts during 2016-17.**

## Christy White Associates

### Sample of Procedures Performed for Newark USD Measure G Audit (continued)

Select a sample of contracts and change orders and perform the following steps:

- Change order amount did not exceed 10%
- Change order had proper approvals (Board, Project Manager)
- Change order appears reasonable and does not appear to indicate bid splitting or fraud
- Change order follows District policy

#### **Change orders tested were for BRCO Constructors, Inc. and D.L. Falk Construction.**

Select a representative sample of construction job sites and arrange for a site visit to determine that the projects exist and that the projects are progressing as expected. Consider tracing work performed per invoices or site expenditure listings examined during the expenditure test to completed or in-process work at the sites visited to verify existence of the construction project(s).

#### **Site walks were conducted at Musick Elementary School and Macgregor Alternative Education, two sites that incurred a high volume of expenditures during 2016-17.**

Obtain a listing of the Citizens' Oversight Committee members as of the balance sheet date, including Committee member titles (including organizational affiliations per Education Code Section 15282 - i.e., from taxpayer organization, etc.) and terms of office, for disclosure in the bond audit report.

**District is actively seeking a member of a taxpayer organization to fill the vacant seat on the committee.**