

Proposition 39 Audit Requirements

- Performance Audit Standards
 - Described in Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States (the “Yellow Book”)
 - **Did not exist** in GAGAS in 2000 when Proposition 39 was passed
 - Added to GAGAS in 2003; further enhanced in 2007

Proposition 39 Audit Requirements

- Recent Developments:
 - SB 1473 (EC 15286)
 - Introduced 2/19/10
 - Amended 3/25/10 and 4/12/10
 - First hearing 4/14/10
 - Passed Assembly 8/16/10; Passed Senate 8/26/10
 - Signed by Governor 9/22/10
 - Became effective January 1, 2011
 - EC 15286 clarifies Education Code to state that the Performance Audit required under Proposition 39 must be done in accordance with Generally Accepted Governmental Auditing Standards



Performance Audit Standards

- GAGAS General Standards
 - Independence
 - Individual Independence
 - No Personal Impairments
 - Organizational Independence
 - No External Impairments



Performance Audit Standards

- GAGAS General Standards
 - Professional Judgment
 - Exercise reasonable care
 - Professional skepticism
 - Risk Assessment
 - Document significant decisions



Performance Audit Standards

- GAGAS General Standards

- Competence

- Technical Knowledge & Competence
 - Knowledge of GAGAS
 - General knowledge of the entity being audited
 - Communication skills
 - Audit skills
 - Continuing Professional Education



Performance Audit Standards

- GAGAS General Standards
 - Quality Control
 - Auditor must have a system of quality control
 - Peer Review every 3 years



Performance Audit Standards

- GAGAS Fieldwork Standards
 - Reasonable Assurance
 - Sufficient Evidence
 - Appropriate Evidence
 - Supports Auditors' Findings and Conclusions



Performance Audit Standards

- GAGAS Fieldwork Standards

- Significance

- Comparable to “Materiality” in Financial Statement Audits
 - “Relative importance of a matter within the context in which it is being considered.
 - Determination of type and extent of audit work to be performed
 - Evaluating results of audit work



Performance Audit Standards

- GAGAS Fieldwork Standards

- Audit Risk

- The “possibility that the auditors’ findings, conclusions recommendations or assurance may be improper or incomplete”
 - Assessment of audit risk includes quantitative as well as qualitative factors



Performance Audit Standards

- GAGAS Fieldwork Standards

- Planning

- Audit must be adequately planned.
 - Planning must be documented
 - Planning must “reduce audit risk to an appropriate level for the auditor to provide reasonable assurance that the evidence is sufficient and appropriate”
 - Must address audit objectives, scope and methodology



Performance Audit Standards

- GAGAS Fieldwork Standards

- Planning (continued)

- Assess audit risk and significance
- Gain an understanding of the nature of the program or component under audit
- Gain an understanding of the internal control that is significant within the audit objectives
- Gain an understanding of information system controls



Performance Audit Standards

- GAGAS Fieldwork Standards

- Planning (continued)

- Determine which laws, regulations and provisions of contracts are significant
- Assess the risks of fraud
- Assess the risks of abuse
- Identify applicable criteria that are relevant to the audit objectives



Performance Audit Standards

- GAGAS Fieldwork Standards
 - Supervision
 - Audit staff must be supervised
 - Provide sufficient guidance to staff
 - Review of work performed by staff



Performance Audit Standards

- GAGAS Fieldwork Standards
 - Sufficient, Appropriate Evidence
 - Provides a reasonable basis for findings and conclusions
 - Sufficiency is a “measure of the quantity of evidence used to support the findings and conclusions”
 - Appropriateness is the “measure of quality of evidence that encompasses its relevance, validity and reliability in providing support for findings and conclusions”



Performance Audit Standards

- GAGAS Fieldwork Standards

- Audit Documentation

- Related to the planning, conducting and reporting for the audit
 - Objectives, scope and methodology of the audit
 - Evidence of the work performed to support significant judgments and conclusions, including descriptions of transactions and records examined
 - Evidence of supervisory review



Performance Audit Standards

- GAGAS Reporting Standards

- Reporting

- Communicates the results of the audit
- Make results less susceptible to misunderstanding
- Make results available to the public, as applicable
- Facilitate follow-up to determine whether appropriate corrective actions have been taken



Performance Audit Standards

- GAGAS Reporting Standards

- Report Contents

- Objectives, Scope and Methodology
- Audit results
 - Findings
 - Conclusions
 - Recommendations
- Statement about compliance with GAGAS
- Summary of views of responsible officials
- Nature of any confidential or sensitive information omitted, if applicable



Performance Audits

- What will the Auditor look for?
 - Internal Controls
 - Documentation of the control environment
 - Verification that the controls work
 - Compliance with laws and regulations
 - Compliance with District controls



Performance Audits

- What will the Auditor look for?
 - Bond Expenditures
 - Expenditure details agree with District's financial statements / General Ledger
 - Sample of expenditures
 - District procedures are followed
 - Compliance with Bond provisions
 - Compliance with project list
 - School / classroom improvements; not teacher or administrator salaries



Performance Audits

- What will the Auditor look for?
 - Oversight Committee
 - Relationship to the Governing Board
 - Compliance with oversight responsibilities
 - Reports to the Board
 - Committee meeting minutes
 - Accessibility of website information

