

EXHIBIT 1



ADMINISTRATIVE PROCEDURE
SAN DIEGO UNIFIED SCHOOL DISTRICT

NO: 2370

PAGE: 1 OF 44

CATEGORY: **Fiscal Management, Accounting**

EFFECTIVE: 11-06-75

SUBJECT: **Internal Audits**

REVISED: **72-482-0311**

A. PURPOSE AND SCOPE

1. To outline administrative procedures for internal auditing and to define the function and responsibilities of the ~~Internal Audit~~Audits and Investigations Department.

B. LEGAL AND POLICY BASIS

1. **Reference:** Board policy: D-1000, D-2000, D-3000, D-5000; Education Code Sections 42647, 42810, 48937.

C. GENERAL

1. **Originating Office.** Suggestions or questions concerning this procedure should be directed to the ~~Internal Audit~~Audits and Investigations Department, Office of the Superintendent.
2. **Functions**
 - a. Provide an independent appraisal function in the school district to assist management employees in controlling district operations.
 - b. Evaluate the adequacy and effectiveness of accounting controls, financial systems, information systems, and other financially related operations.
 - c. Provide assurance to district management that internal control, operational policies, district procedures, and requirements relating to fiscal independence as outlined by Education Code Section 42647 are sufficient.
 - d. The ~~internal audit director~~Director of Audits and Investigations reports ~~directly administratively to the chief of staff~~General Counsel and plans the development and implementation of an internal audit program designed to examine and evaluate school district activities.
3. **Responsibilities**
 - a. Establish, approve, and submit an annual audit plan for operational audits, information system audits, special education audits, and associated student body financial audits.

SUBJECT: **Internal Audits**

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REVISED: **~~7-18-032-2-11~~**

- b. Recommend policies and procedures to school district management to ensure that the school district maintains a comprehensive audit program and complies with all procedures and requirements related to fiscal independence.
 - c. Develop and implement comprehensive audit programs to review internal controls in all school district offices and activities.
 - d. Assist district management and staff in the effective discharge of their responsibilities by analyzing and appraising their activities.
 - e. Promote effective control at a reasonable cost to protect the assets of the school district.
 - f. Provide district management with written reports containing audit scope, analyses, appraisals, conclusions, comments, and recommendations concerning the activities reviewed.
 - g. Provide technical assistance in establishing district policy and procedures.
 - h. Participate, when requested, in in-service, job-alike, and staff development training to assist district employees in job performance and understanding of new, modified, or existing regulations and procedures.
 - i. Represent the district in meetings with state officials, external auditors, and outside agencies.
 - j. Participate on steering committees to determine district needs and establish district performance requirements for computer systems, internal controls, and school district policies and procedures.
 - k. Conduct special audits, with the approval of the superintendent, at the request of management employees within their respective areas of responsibility.
 - l. Provide quarterly summaries of department activities to the Audit and Finance Committee.
4. **Access to Records.** In performance of duties, the Internal Audit Department must have unrestricted access to all district files and records and to management employees and other staff involved in programs and activities subject to audit.
 5. **Federal, State, or Local Audit.** District management employees shall notify the Internal Audit Audits and Investigations Department immediately when notified by

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SUBJECT: **Internal Audits**

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federal, state, or local agencies that an audit or evaluation is to be performed. The Internal Audit Department shall assist district personnel with any concerns they might have for federal, state, and local audits.

D. IMPLEMENTATION

1. Regularly Scheduled Audits. ~~Internal Audit~~ Audits and Investigations

Department:

- a. Determines activities to be reviewed and prepares an annual audit plan based on following criteria:
 - (1) Risk analysis
 - (2) Frequency of activity
 - (3) Date and results of previous audits
 - (4) Special deadlines
- b. Submits annual audit plan and implements audit schedule.

2. Special Audits

- a. **Management employee** submits written request to internal audit director detailing activity or area to be audited, objective of audit, reason for request, and desired date of audit report.

- b. ~~Internal audit director~~ Director, Internal Audits and Investigations

Department

- (1) Reviews request for special audit with superintendent or designee to ascertain feasibility of audit; determines possible duplication with other audits; estimates time required and ability to meet desired report date; and determines priority of requested audit.
- (2) Notifies requesting management employee of decision to conduct audit.

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- (3) Schedules and communicates dates for audit; amends audit plan, if necessary.
 - (4) Assigns and/or performs audit.
 - (5) Approves and/or prepares and submits written audit report.

3. Audit Report. Internal Audit Department:

- a. Reviews findings with management during performance of audit testwork.
- b. Reviews draft version of audit report with management after completion of audit testwork.
- c. Prepares written audit report outlining audit scope and objectives, details of audit findings, conclusions, and recommendations for change.
- d. Issues written audit report to the auditee, superintendent, Board of Education, and ~~appropriate for distribution to~~ management.
- e. Following implementation of recommended changes, performs follow-up to ensure timely management resolution of audit issues.

E. FORMS AND AUXILIARY REFERENCES

F. REPORTS AND RECORDS

G. APPROVED BY



Chief of Staff, Terrance L. Smith
For the Superintendent of Public Education

EXHIBIT 2

[Home](#) > [Departments](#) > [Audits and Investigations](#)

Audits and Investigation

The Office of Audits and Investigations serves an independent appraisal function within the district. It is charged with developing and implementing an internal audit program designed to examine and evaluate district activities. An objective of this office is to provide assurance to district management that internal controls, operational policies and district procedures are sufficient. The office provides district management with written reports containing analyses, appraisals and recommendations concerning activities reviewed. The department also investigates and resolves calls made to the district Fraud Hotline.

Contact Us

Andrea Niehaus
Director, Internal Audit and Investigations
(619) 725-5692
(619) 725-5699 - Fax

EXHIBIT 3

OFFICE OF AUDITS AND INVESTIGATIONS

DIRECTOR OF AUDITS AND INVESTIGATIONS
Interim
~~ANDREA NIEHAUS~~
Stephen Carr

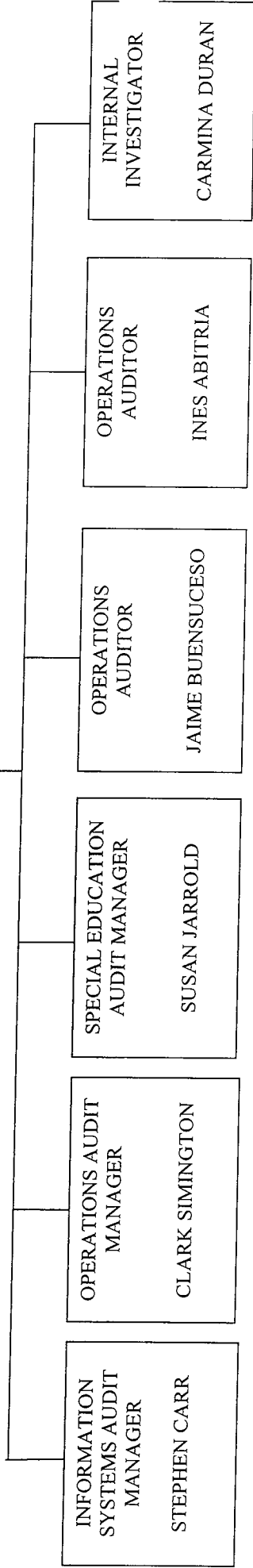
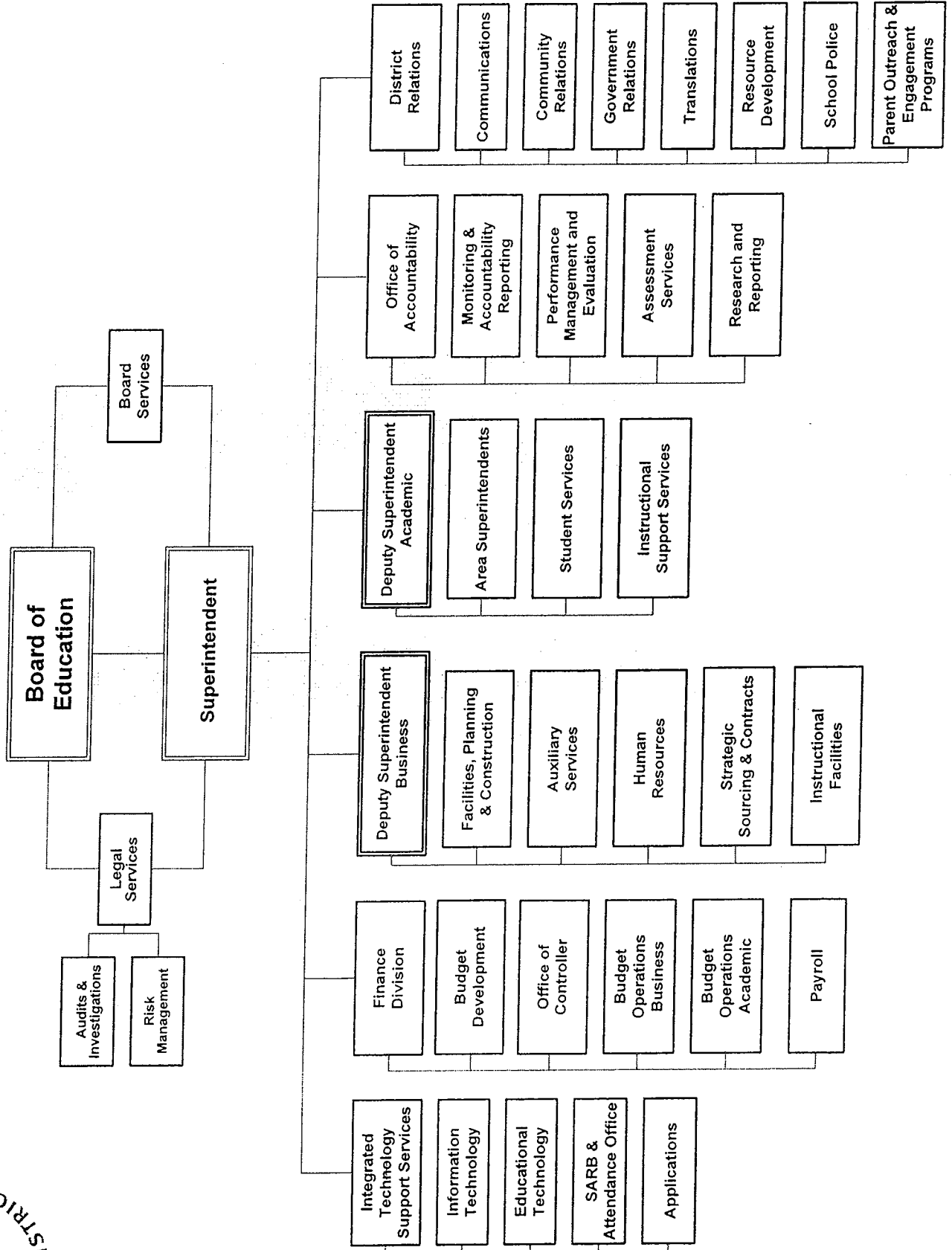
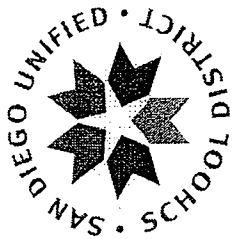


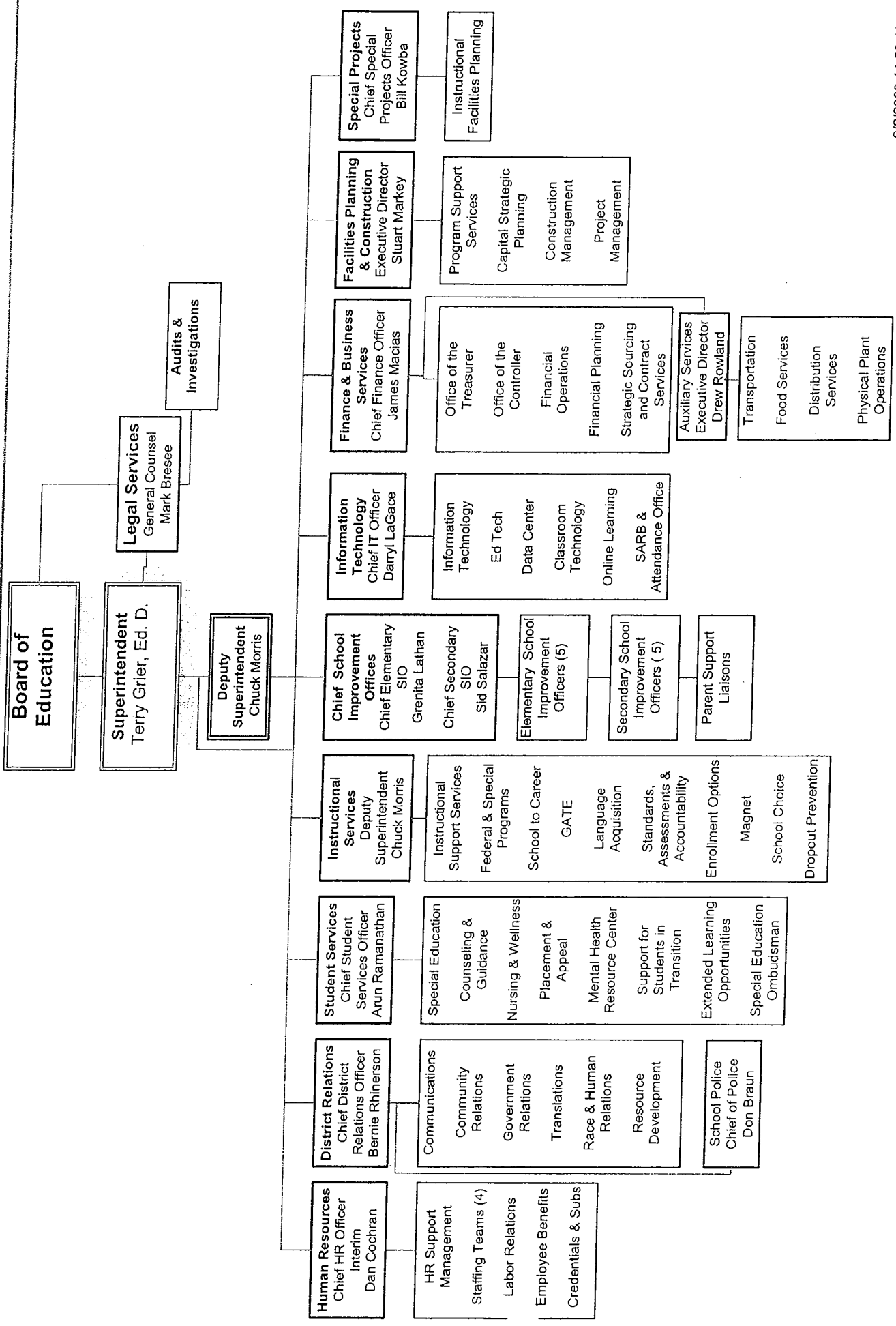
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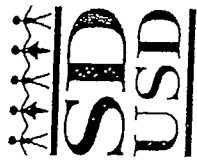
San Diego Unified School District
2010 - 2011





**San Diego Unified School District
Organizational Chart
2009-2010**

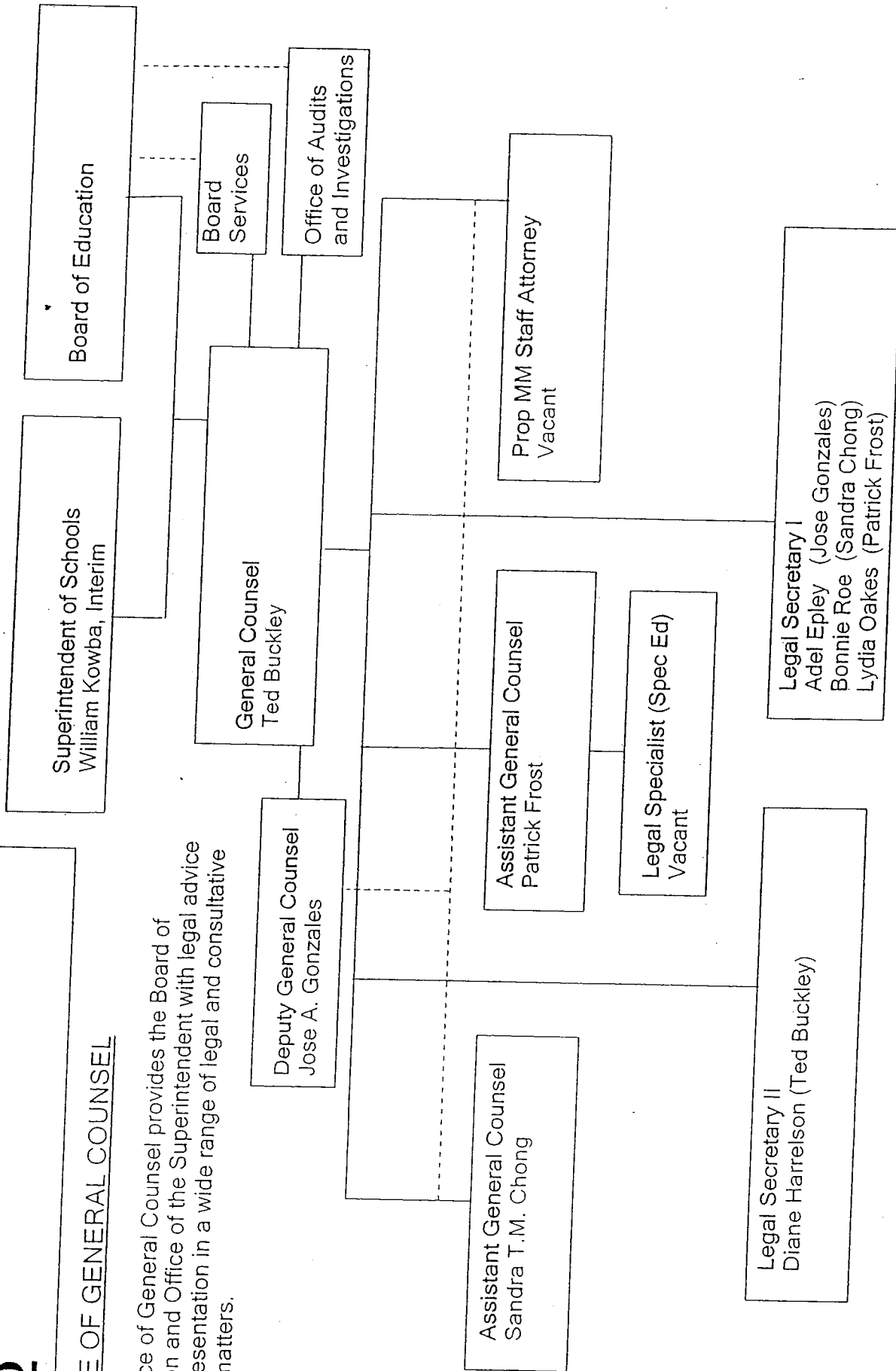


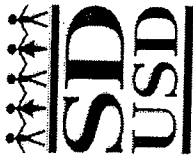


SAN DIEGO UNIFIED SCHOOL DISTRICT
 District Organization
 (School Year 2007-2008)

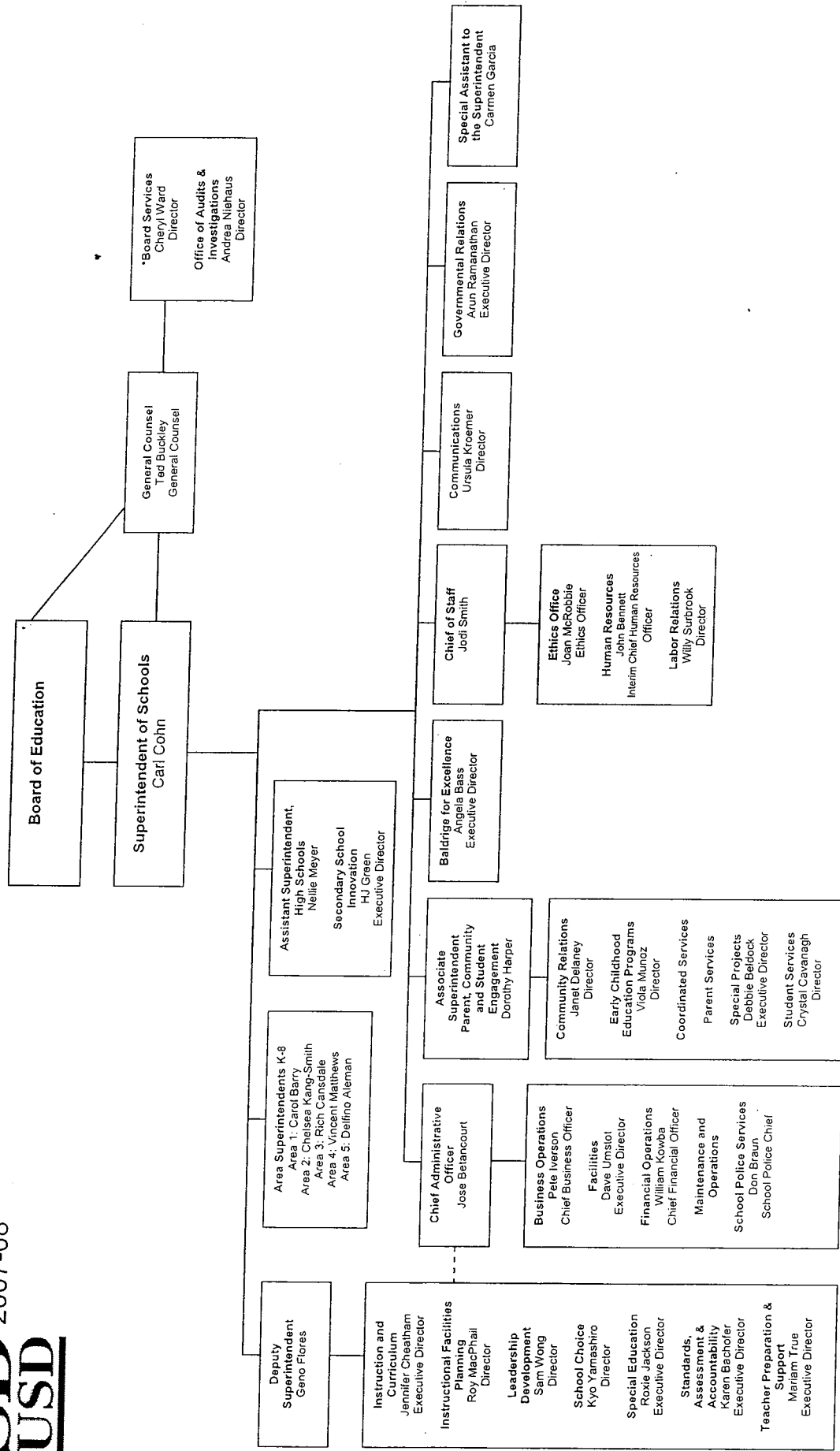
OFFICE OF GENERAL COUNSEL

The Office of General Counsel provides the Board of Education and Office of the Superintendent with legal advice and representation in a wide range of legal and consultative subject matters.





SAN DIEGO UNIFIED SCHOOL DISTRICT
 District Organization
 2007-08

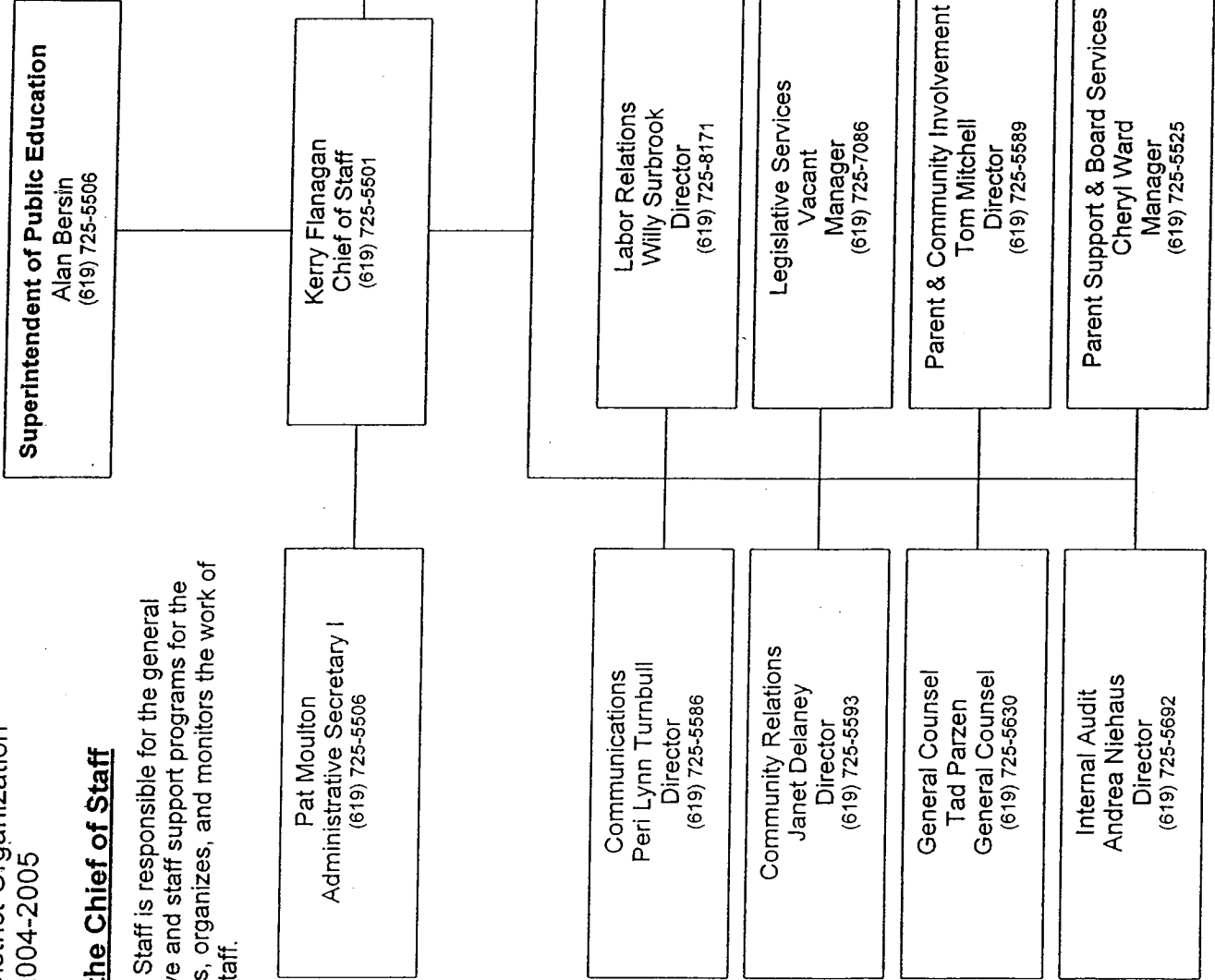


* Board Action Officer reports directly to the Board of Education on Board agenda matters.
 6/14/07



Office of the Chief of Staff

The Chief of Staff is responsible for the general Administrative and staff support programs for the District; plans, organizes, and monitors the work of the District staff.

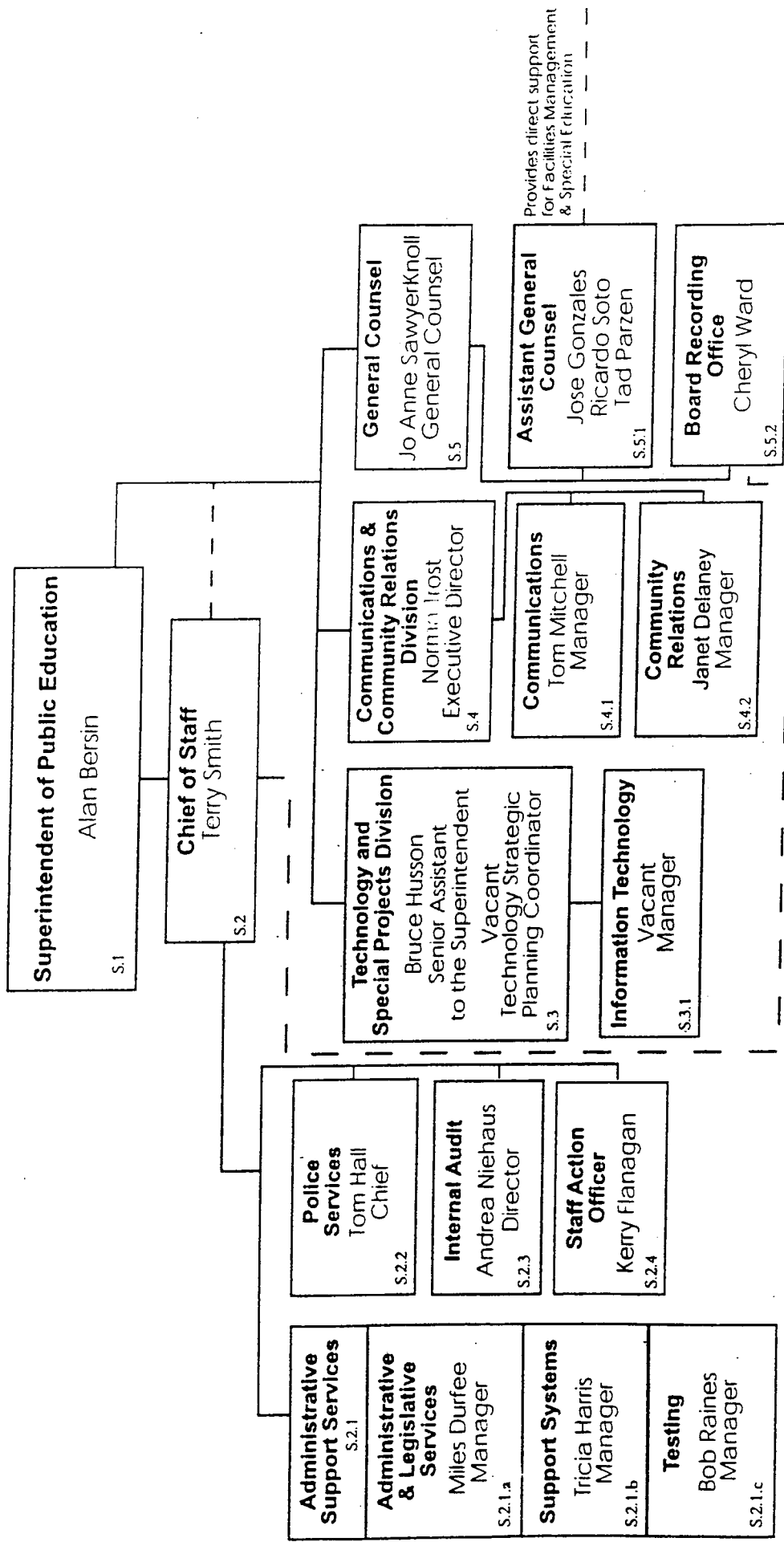


The mission of San Diego City Schools is to improve student achievement by supporting teaching and learning in the classroom.

SAN DIEGO CITY SCHOOLS
District Organization

Attachment A
 April 24, 2001

OFFICE OF THE SUPERINTENDENT
 2001-02

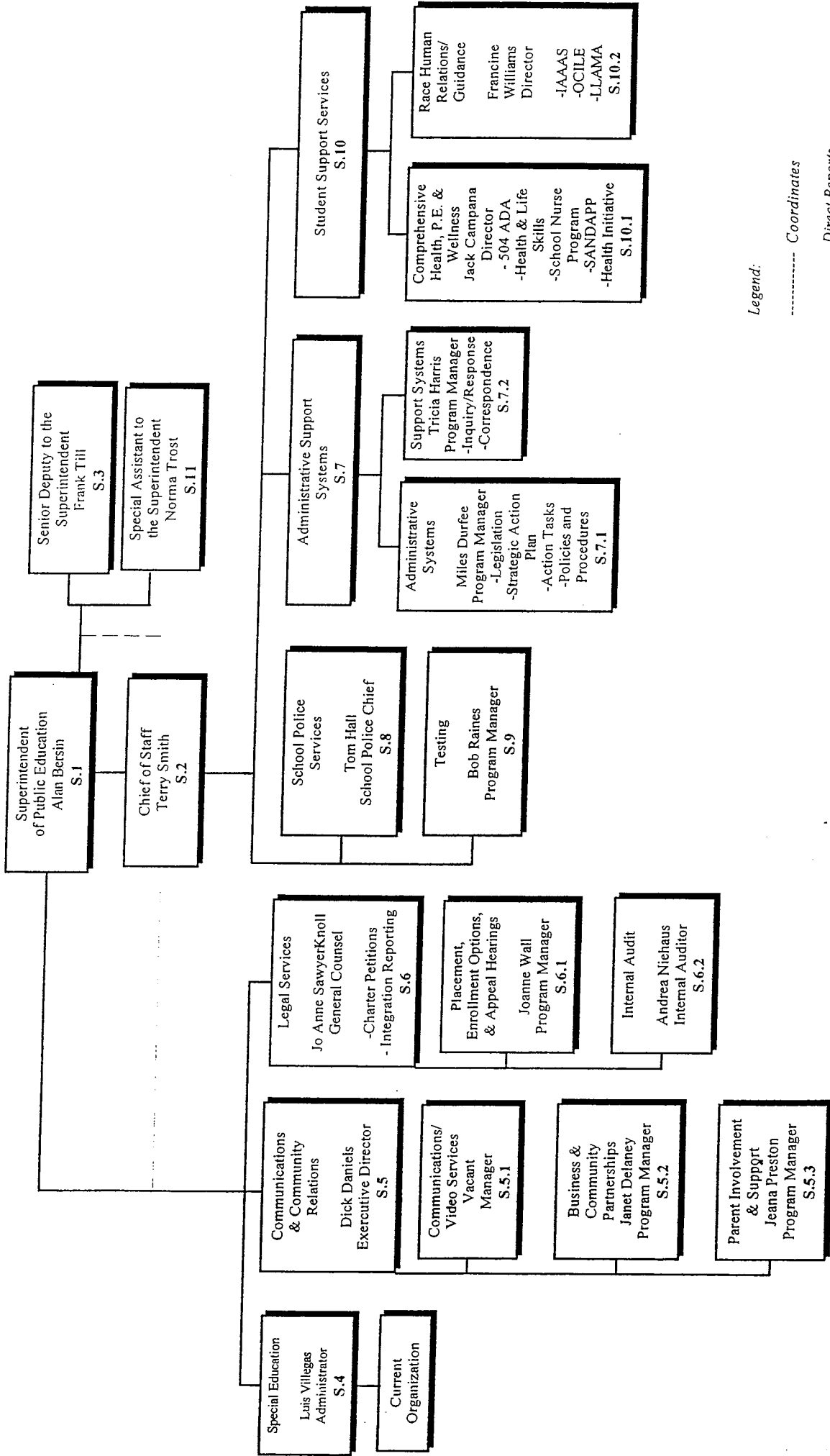


PROPOSED

"The mission of San Diego City Schools is to improve student achievement by supporting teaching and learning in the classroom."

Reports
 Coordinates

**DISTRICT ORGANIZATION
OFFICE OF THE SUPERINTENDENT
1999-2000**



Legend:

----- Coordinates

_____ Direct Reports

"The mission of the San Diego City Schools is to improve student achievement by supporting teaching and learning in the classroom."

EXHIBIT 5

**SAN DIEGO UNIFIED SCHOOL DISTRICT
POSITION DESCRIPTION**

TITLE: Director, Office of Audits and Investigations

REPORTS TO: Office of General Counsel

DEPARTMENT: Office of Audits and Investigations

CLASSIFICATION: Classified Management

FLSA: Exempt **SALARY GRADE:** 034

ISSUED: December 12, 2006

BASIC FUNCTION:

Plan, organize, control, and direct procedural guidelines for internal auditing and investigative programs; conduct audits and investigations and make analyses of a variety of district departments including Special Education, electronic data processing and operational systems and procedures. Oversee the fraud hotline operation and determine the effectiveness of internal controls to evaluate compliance and work efficiency in divisions and schools throughout the District; supervise and evaluate the performance of assigned personnel. Communicate major findings and recommendations with senior management, the ~~district's audit committee~~ District's Audit and Finance and the Board of Education.

REPRESENTATIVE DUTIES:

Plan, organize, control and direct procedural guidelines for the District internal auditing program and Investigation Program. *E*

Determine the nature and scope of systems analyses or audits; formulate procedures and work schedule. *E*

Coordinate audits, observe performance, collect and analyze data and present findings and recommendations in report form. *E*

Administer and track the third party hotline; contract and hire outside investigators; coordinate with Fraud Hotline Committee to ensure and follow-up on the disposition of hotline calls. *E*

~~Work~~ Coordinate with the district attorney's office and law enforcement ~~in investigative matters~~ when appropriate. *E*

Prepare an Annual Audit Plan; inform the Board of Education, Superintendent, and General Counsel of major audit findings; complete summary reports for the Audit and Finance Committee. *E*

Recommend policy changes, closure of programs or disciplinary action. *E*

Perform systems analyses for various work processes and recommend changes for improving efficiency; design management control systems and work processes; provide technical assistance to Associated

Student Body (ASB), clerical support staff and at school sites; participate in in-services and job-alike meetings and staff development training. *E*

Contact other school districts and public agencies during the course of audit research to obtain or provide information. *E*

Plan, organize and implement long and short-term programs and activities designed to develop assigned programs and services. *E*

Assure proposed audit objectives are reasonable; approve and submit an audit plan, ~~and f~~

Approve and submit final audit finding reports to the Superintendent, Executive Management Group and Board of Education, Superintendent, and General Counsel as required; serve as a member of the senior management group. *E*

Perform special audits as requested by management; serve as audit coordinator between District and federal, State and local government auditors and contract auditors; conduct investigations of suspected fraudulent activities by District employees and present findings to appropriate staff. *E*

Recommend policies and procedures to assure that the District maintains a comprehensive audit program and complies with procedures and requirements related to fiscal independence. *E*

Direct the preparation and maintenance of detailed records of department functions and activities. *E*

Train and evaluate the performance of assigned staff; provide for continuing departmental staff training programs in internal auditing programs, analyses and related functions; develop work schedules; interview and select employees and recommend transfers, reassignment, termination and disciplinary actions. *E*

Provide technical expertise, information and assistance to the General Counsel regarding assigned functions; assist in the formulation and development of policies, procedures and programs; advise the General Counsel of unusual trends or problems and recommend appropriate corrective action. *E*

Direct the preparation and maintenance of a variety of narrative and statistical reports, records and files related to assigned activities and personnel. *E*

Maintain current knowledge of applicable provisions of the District auditing activities of the department. *E*

Communicate with other administrators, personnel and outside organizations to coordinate activities and programs, resolve issues and conflicts and exchange information; develop policies and procedures to encourage effective and efficient management controls. *E*

Analyze and review budgetary and financial data; control and authorize expenditures in accordance with established limitations. *E*

Operate a computer and assigned software programs; operate other office equipment as assigned. *E*

Maintain current knowledge on programs and issues that affect school auditing functions and services; present reports and initial findings of audit and systems analyses, and recommended corrections and improvements. *E*

Perform related duties as assigned.

EDUCATION AND EXPERIENCE:

~~Any combination of training, experience, and/or education equivalent to a~~ bachelor's degree in accounting or a related field ~~and~~ five years of recent, full-time, paid, progressively responsible financial and systems auditing experience at a supervisory or management level. Five years of experience managing audit staff inclusive of hiring, disciplining, directing staff, evaluating staff, training staff, and developing and managing the department budget. Experienced in the development, administration, and execution of an audit plan. Certification as an Internal Auditor is highly desirable in a discipline related to internal auditing, such as Certified Public Accountant, Certified Internal Auditor, or Certified Internal Systems Auditor.

LICENSES AND OTHER REQUIREMENTS:

Valid California driver's license.

KNOWLEDGE AND ABILITIES:

KNOWLEDGE OF:

Analyze problems, make decisions, and accept responsibility.

Current accounting techniques, methodologies, and practices.

Applicable accounting and auditing standards.

Methods of fiscal control management.

Planning, organization and direction of procedural guidelines related to public sector auditing activities.

District, State and federal procedures, and applicable laws, codes, and regulations.

Existing and pending legislation related to school district auditing activities.

Budget preparation and control.

Oral and written communication skills.
Principles and practices of administration, supervision and training.
Applicable laws, codes, regulations, policies and procedures.
Interpersonal skills using tact, patience and courtesy.
Operation of a computer and assigned software.

ABILITY TO:

Plan, organize and administer a District internal auditing program and Investigative activities for the school district.
Analyze problems, make decisions, and accept responsibility.
Train and evaluate the performance of assigned staff.
Determine the nature and scope of systems analyses or audits.
Review existing and pending legislation related to procedural guidelines and the District internal auditing program and recommend origination, modification, or support of legislative measures.
Maintain current knowledge of applicable provisions of applicable federal, State and District laws, rules and regulations.
Communicate effectively both orally and in writing.
Establish and maintain cooperative and effective working relationships with others.
Operate a computer and assigned office equipment.
Analyze situations accurately and adopt an effective course of action.
Meet schedules and time lines.
Work independently with little direction.
Plan and organize work.
Prepare comprehensive narrative and statistical reports.
Direct the maintenance of a variety of reports and files related to assigned activities.

WORKING CONDITIONS:

ENVIRONMENT:

Office environment.

PHYSICAL REQUIREMENTS:

Hearing and speaking to exchange information and make presentations; seeing to read and write correspondence and reports; sitting or standing for extended periods of time; dexterity of hands and fingers to operate a computer keyboard and other office equipment; kneeling, bending at the waist, and reaching overhead, above the shoulders and horizontally, to retrieve and store files and supplies; lifting light objects.

Issued: 12.12.06
Job Code 1811
JB

EXHIBIT 6

Audit and Finance Committee
Board of Education
San Diego Unified School District

Adopted: December 9, 2003

Revised: June 24, 2010

SCOPE OF ACTIVITIES AND DUTIES OF THE AUDIT AND FINANCE COMMITTEE

PURPOSE

The general purpose of the Audit and Finance Committee is to review and monitor the district external audit process and to provide outside professional expertise to the Board of Education and Superintendent. The Committee will review and monitor the timing and scope of internal and external audit activities, the implementation of effective internal controls by district management and thorough management response to audit findings on a timely basis. The Committee may review the district's provisional and final budgets, interim financial reports and other financial documents as needed and as deemed appropriate by the Committee. It will make recommendations to the Board regarding the adequacy of such documents and processes and the need for changes to them.

MEMBERSHIP

The members of the Audit and Finance Committee are as follows:

Two Board of Education Trustees appointed by the full Board of Education;

Three community representatives who are trained and experienced in financial practice.

Outside members should have direct management experience such as a chief executive officer, chief financial officer, chief technology officer, chief auditor or similar responsible role. Prior experience on a corporate audit and finance committee is highly desirable. All persons appointed to the Audit and Finance Committee must meet the district's conflict of interest requirements.

The members of the Audit and Finance Committee will designate a Chairperson and Vice-Chairperson from among themselves. The Chairperson and Vice-Chairperson shall be a community representative.

TERMS OF SERVICE

Each Committee member will be appointed to a 2-year term (see Appendix A for current Committee list). The terms will be staggered and overlapping: one Board member's term will coincide with two of the community representatives and the second Board member's term will coincide with the remaining community representative. There are no term limits.

Appointments of Board Members to the committee may be changed each year but a two-year commitment is encouraged to provide continuity.

All committee members will serve at the pleasure of the Board of Education.

Scope of Activities and Duties of the Board of Education Audit and Finance Committee

SCOPE OF ACTIVITIES

The Audit and Finance Committee will review on an annual basis the audit plans, audit scope and findings of the District's internal and external auditors, and recommend whether the external auditors should be retained or changed. The Audit and Finance Committee will designate a member to participate with staff in the audit exit meeting.

The Committee may review the district's provisional and final budgets, interim financial reports and other financial documents as needed and as deemed appropriate by the Committee. It may make recommendations to the Board regarding the adequacy of such documents and processes and the need for changes to them.

The Audit and Finance Committee is advisory in nature. Its recommendations regarding audit exceptions and other items will be provided in writing to the Board of Education and the Superintendent.

The Committee shall review the Scope of Activities and Duties of the Committee and recommended changes to the Board of Education if such changes would improve the Committee's ability to do its job effectively.

The Committee will meet 3-4 times a year. Additional meetings may be scheduled as recommended by staff, requested by the committee itself and/or as requested by the Board of Education.

The Board Office is responsible for arranging staff and clerical services to assist the committee.

RESPONSIBILITIES OF THE COMMITTEE MEMBERS

Attend all meetings in person or electronically.

Review the agenda and advance materials thoroughly prior to each meeting.

Maintain the confidentiality of certain legal and personnel issues as required by law.

Maintain ethical standards regarding conflict of interest.

The board trustees appointed to this committee are encouraged to pursue training in financial oversight and governance.

RESPONSIBILITIES OF THE COMMITTEE CHAIRPERSON

Establish the Committee's annual schedule of meetings.

Set the agenda for each meeting with the advice of designated district staff and committee members.

Maintain an open line of communication with the District's external auditors and with district management regarding issues within the purview of the committee.

Appendix A - Scope of Activities and Duties of the Board of Education Audit Committee

CURRENT MEMBERSHIP AND TERMS

Calendar Year 2010

<u>Name</u>	<u>Term</u>
Dan McAllister, Chair	January 2009-December 2010
Bill Wright	January 2010-December 2011
Lisa Stein	January 2010-December 2011
Richard Barrera, Board Member	January 2010-December 2011
John Lee Evans, Board Member	January 2009-December 2010

EXHIBIT 7



CALIFORNIA
DEPARTMENT OF
EDUCATION

AUDITS & INVESTIGATIONS DIVISION

CDE AUDIT GUIDE

June 2010

CALIFORNIA DEPARTMENT OF EDUCATION
AUDITS & INVESTIGATIONS DIVISION

CDE AUDIT GUIDE

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GLOSSARY
Terms and Acronyms

A&I	Audits and Investigations Division
AE	Adult Education
AICPA	American Institute of Certified Public Accountants
AUD	Audited Attendance and Fiscal Report
CACFP	Child and Adult Care Food Program
CAFR	Comprehensive Annual Financial Report
CBO	Community Based Organization
CCFRF	Child Care Facilities Revolving Fund
CCR	<i>California Code of Regulations</i>
CD	Child Development
CDD	Child Development Division
CDE	California Department of Education
CDFS	Child Development Fiscal Services
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CPA	Certified Public Accountant
CSAM	<i>California School Accounting Manual</i>
EC	<i>California Education Code</i>
EDGAR	Education Department General Administration Regulations
ESEA	Elementary and Secondary Education Act of 1965
FASD	Fiscal Administrative Services Division
FT&C	<i>Funding Terms and Conditions for Child Development Programs</i>
GAAP	Generally Accepted Accounting Principles
GAS	<i>Government Auditing Standards</i>
Greenbook	<i>Child Development Attendance and Fiscal Reporting and Reimbursement Procedures</i>
HHS	United States Department of Health and Human Services
MOE	Maintenance of Effort
NCLB	No Child Left Behind
NSD	Nutrition Services Division
OMB	Office of Management and Budget
SCO	State Controller's Office
USDA	United States Department of Agriculture

CHAPTER 100

INTRODUCTION

Chapter 100 – Introduction

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PURPOSE OF AUDIT GUIDE

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The California Department of Education (CDE), Audits and Investigations Division (A&I), developed the *CDE Audit Guide* as a resource for audit requirements and guidance applicable to certain state and federal programs operated by private and public organizations under agreements with the CDE. Effective with audits of fiscal year 2009-10, the *CDE Audit Guide* supersedes the CDE's *Guide for Auditing Child Development, Nutrition, and Adult Basic Education Programs*, dated August 2002, in its entirety. The *CDE Audit Guide* should be used by independent auditors in conducting audits of state and federal programs, including, but not limited to:

- Child Care and Development
- Nutrition
- Adult Education
- No Child Left Behind – William F. Goodling Even Start Family Literacy, and 21st Century Community Learning Centers

The *CDE Audit Guide* also contains background information and audit procedures that should be considered when auditing CDE programs. The *CDE Audit Guide* is designed to supplement audit procedures and standards necessary to perform an examination in accordance with (1) Auditing Standards Generally Accepted in the United States of America, (2) *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States, and (3) applicable Office of Management and Budget Circulars. The *CDE Audit Guide* does not supplant the auditor's professional judgment; it leaves to the auditor's discretion which procedures to utilize in conducting an individual audit.

AUTHORITY FOR AUDIT GUIDE

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The CDE requires an independent audit of public and private agencies under contract with CDE for the provision of educational services, including (but not limited to) child nutrition and child development, as provided by the following laws and regulations:

- A. The financial and compliance requirements to be reviewed during the audit shall conform, to the maximum extent possible, with those developed by the California State Controller's Office (SCO), in consultation with the California Department of Finance and CDE for use in auditing local educational agencies (LEA). The LEA audit guide, entitled *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (SCO Audit Guide), is to be submitted to the Education Audits Appeal Panel for review and adoption each fiscal year. See California *Education Code* (EC), sections 33420, 41020.5, 14504, and 14502.1.
- B. The Child Care and Development Services Act requires an independent financial and compliance audit of organizations that contract with CDE under direct service contracts. Such audits shall be audits of the contractor rather than audits of individual contracts or programs. The financial and compliance requirements to be

AUTHORITY FOR AUDIT GUIDE

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reviewed during the audit shall be those developed and published by the CDE in consultation with the Department of Finance. See *EC*, Section 8448.

EC 8448 and *Title 5, California Code of Regulations (CCR)*, sections 18071, 18072, and 18073, require contractors to submit an acceptable annual financial and compliance audit to A&I. Consistent with the language and intention of the laws and regulations cited herein, the A&I has determined that an *acceptable audit* must meet the audit requirements set forth in the *CDE Audit Guide*, as it applies to specific CDE programs.

- C. Both the CDE and SCO audit guides incorporate the authority of the Office of Management and Budget (OMB) Circulars with regard to federal programs, including the *Single Audit* requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations (Single Audit)*.
- D. *EC* sections 84040 and 84040.5 require the governing board of each community college district to provide for an annual audit of all funds, books, and accounts of the district in accordance with the regulations of the board of governors, as approved by the Department of Finance.
- E. The U.S. Department of Agriculture (USDA) sets forth requirements for audits and financial statements involving nutrition programs. Reference *Title 7, Code of Federal Regulations (CFR)*, Part 3052, *Audits of States, Local Governments, and Non-Profit Organizations*.

GENERAL AUDIT OBJECTIVES

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The general objectives for audits of CDE programs are to determine whether:

- A. The organization's financial statements are presented in conformity with generally accepted accounting principles in the United States of America (GAAP).
- B. The agency establishes and maintains effective internal controls to discharge management responsibilities and adequately safeguard state and federal interests.
- C. State and federal funds are being expended in accordance with applicable agreements and provisions of law or regulations that could materially affect the financial statements or programs tested. See Section 708, which distinguishes between the level of materiality for financial statements and program compliance.
- D. The direct and indirect costs incurred and claimed for reimbursement under the contracts are reasonable, allowable, and allocable to the programs according to the benefits received.

GENERAL AUDIT OBJECTIVES **130**

- E. The supplemental information required by the audit guide is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

AUDITOR QUALIFICATIONS **140**

Independent annual audits of CDE Programs administered by private not-for-profit organizations, private for-profit organizations, four-year universities, colleges, cities, and counties shall be performed by one of the following (also applies to *Single Audits*, except for item C):

- A. Certified Public Accountant (CPA) licensed by the California Board of Accountancy.
- B. Public accountant (PA) licensed on or before December 31, 1970 by the California Board of Accountancy.
- C. Internal audit unit of contractor that is not subject to the direction or authority of the manager responsible for the programs subject to the *CDE Audit Guide*.
- D. A&I, State Auditor, State Controller, and other comparable audit group that is independent of the auditee.

AUDITING STANDARDS **150**

Each audit shall be conducted in accordance with (1) auditing standards generally accepted in the United States of America, which are set forth by the American Institute of Certified Public Accountants; (2) the standards applicable to financial audits, contained in *GAS*, as issued by the Comptroller General of the United States; and (3) the *Single Audit* requirements set forth in the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as applicable.

SELECTING AN AUDITOR **160**

A. General

The California Board of Accountancy (Board) maintains a Web site at <http://www.dca.ca.gov/cba/consumers/slectcpa.shtml> that lists considerations for selecting a CPA or PA. The Board also allows you to check the status of a practitioner's license by using its License Lookup Feature at <http://www.dca.ca.gov/cba/lookup.shtml>, or you can contact the Board by telephone at (916) 263-3680.

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B. Peer Review

CPAs are required to obtain periodic reviews performed by a peer. The American Institute of Certified Public Accountants (AICPA) Peer Review Program has the goal of obtaining quality in the performance of accounting and auditing engagements by its members, seeking to achieve its goal through education and remedial, corrective actions. For additional peer review information, see the AICPA Web site at <http://www.aicpa.org/members/div/practmon/index.htm>.

In addition, Paragraph 3.50.b of GAS requires audit organizations that perform audits in accordance with generally accepted government auditing standards to have an external peer review at least once every 3 years.

C. Request for Proposal

The AICPA Web site offers tools to assist in the process of hiring an auditor, including a sample request letter for CPA services. The sample contains language that may be used by an organization when requesting a proposal letter from a qualified CPA when seeking a new service provider. See a sample Request for Proposal (RFP) on the AICPA Web page at:

http://www.aicpa.org/audcommctr/toolkitsnpo/SampleRFP_for_CPA_Services.htm.

When the organization is requesting audited financial statements, ensure that the RFP requires the auditor to provide:

1. A copy of the firm's most recent governmental peer review report, the related letter of comments, and the firm's response to the letter of comments.
2. A proposal letter that includes:
 - a. Assurance that the audit will adhere to the audit requirements of (1) the CDE Audit Guide, and (2) if applicable, OMB Circular A-133.
 - b. Each of the financial and compliance areas to be audited.
 - c. The date by which the final audit report will be provided (see audit report submission and due date requirements in Chapter 200).
 - d. A statement to the effect that the auditor shall make available, on request by CDE, a copy of all audit documentation pertaining to the audit.

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- e. Assurance that the CPA will provide two copies of the audit report and management letter directly to CDE at:

California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814
Attention: Audit Reports Review Section

D. Contract for Audit Services

The contract for audit services should be obtained by using applicable procurement standards. The auditor must provide the organization with a written engagement letter that spells out all services to be performed, as described in the RFP and proposal letter.

AUDIT GUIDE CHANGES

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Future updates to this audit guide may be made periodically, depending on changes in applicable laws, regulations, and other guidelines. The Audits and Investigations Division (A&I) provides access to the *CDE Audit Guide* through its Web site at <http://www.cde.ca.gov/fg/au/pm/>. In between major revisions of the *CDE Audit Guide*, updates affecting the audit guide may be posted to the A&I Web site.

The *CDE Audit Guide* incorporated examples based on the latest reporting standards and requirements issued by the American Institute of Certified Public Accountants, Office of Management and Budget, and Comptroller General of the United States. However, over time, such standards and requirements likely will be revised. When revisions occur, the auditor should use the most current authoritative language.

Suggestions for improving the *CDE Audit Guide* should be addressed to the Audits and Investigations Division by calling (916) 322-2288, or writing:

California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814
Attention: Audit Guide Revisions

TECHNICAL ASSISTANCE

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Organizations or independent auditors with questions about the *CDE Audit Guide*, or the program requirements affecting audits, may contact A&I by telephone at (916) 322-2288, or by mail or fax at:

California Department of Education
Audits and Investigations Division
1430 N Street, Suite 5319
Sacramento, CA 95814
Attention: Audit Reports Review Section
Fax: (916) 323-4460

EXHIBIT 8



Summaries / Status

Summary of Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis— for State and Local Governments* (Issued 6/99)

Preface

This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will create new information and will restructure much of the information that governments have presented in the past. We developed these new requirements to make annual reports more comprehensive and easier to understand and use.

The GASB's first concepts Statement,* issued in 1987 after extensive due process, identifies what we believe are the most important objectives of financial reporting by governments. Some of those objectives reaffirm the importance of information that governments already include in their annual reports. Other objectives point to a need for new information. For this reason, this Statement requires governments to retain some of the information they currently report, but also requires them to reach beyond the familiar to new and different information. This Statement will result in reports that accomplish many of the objectives we emphasized in that concepts Statement.

*GASB Concepts Statement No. 1, *Objectives of Financial Reporting*.

Retaining the Familiar

Annual reports currently provide information about funds. Most funds are established by governing bodies (such as state legislatures, city councils, or school boards) to show restrictions on the planned use of resources or to measure, *in the short term*, the revenues and expenditures arising from certain activities. Concepts Statement 1 noted that annual reports should allow users to assess a government's accountability by assisting them in determining compliance with finance-related laws, rules, and regulations. For this reason and others, this Statement requires governments to continue to present financial statements that provide information about funds. The focus of these statements has been sharpened, however, by requiring governments to report information about their most important, or "major," funds, including a government's general fund. In current annual reports, fund information is reported in the aggregate by fund type, which often makes it difficult for users to assess accountability.

Fund statements also will continue to measure and report the "operating results" of many funds by measuring cash on hand and other assets that can easily be converted to cash. These statements show the performance—*in the short term*—of individual funds using the same measures that many governments use when financing their current operations. For example, if a government issues fifteen-year debt to build a school, it does not collect taxes in the first year sufficient to repay the *entire* debt; it levies and collects what is needed to make that year's required payments. On the other hand, when governments charge a fee to users for services—as is done for most water or electric utilities—fund information will continue to be based on accrual accounting (discussed below) so that all costs of providing services are measured.

Showing budgetary compliance is an important component of government's accountability. Many citizens—regardless of their profession—participate in the process of establishing the original annual operating budgets of state and local governments. Governments will be required to continue to provide budgetary comparison information in their annual reports. An important change, however, is the requirement to add the government's *original* budget to that comparison. Many governments revise their original budgets over the course of the year for a variety of reasons. Requiring governments to report their original budget in addition to their *revised* budget adds a new analytical dimension and increases the usefulness of the budgetary comparison. Budgetary changes are not, by their nature, undesirable. However, we believe that the information will be important—in the interest of accountability—to those who are aware of, and perhaps made decisions based on, the original budget. It will also allow users to assess the government's ability to estimate and manage its general resources.

Bringing in New Information

The financial managers of governments are knowledgeable about the transactions, events, and conditions that are reflected in the government's financial report and of the fiscal policies that govern its operations. For the first time, those financial managers will be asked to share their insights in a required management's discussion and analysis (referred to as MD&A) by giving readers an objective and easily readable analysis of the government's *financial* performance for the year. This analysis should provide users with the information they need to help them assess whether the government's financial position has improved or deteriorated as a result of the year's operations.

Financial managers also will be in a better position to provide this analysis because for the first time the annual report will also include new government-wide financial statements, prepared using accrual accounting for all of the government's activities. Most governmental utilities and private-sector companies use accrual accounting. It measures not just current assets and liabilities but also long-term assets and liabilities (such as capital assets, including infrastructure, and general obligation debt). It also reports *all* revenues and *all* costs of providing services each year, not just those

These government-wide financial statements will help users:

Assess the finances of the government in its entirety, including the year's operating results

Determine whether the government's overall financial position improved or deteriorated

Evaluate whether the government's current-year revenues were sufficient to pay for current-year services

See the cost of providing services to its citizenry

See how the government finances its programs—through user fees and other program revenues versus general tax revenues

Understand the extent to which the government has invested in capital assets, including roads, bridges, and other infrastructure assets

Make better comparisons between governments.

In short, the new annual reports should give government officials a new and more comprehensive way to demonstrate their stewardship in the long term *in addition to* the way they currently demonstrate their stewardship in the short term and through the budgetary process.

The GASB expresses its thanks to the thousands of preparers, auditors, academics, and users of governmental financial statements who have participated during the past decade in the research, consideration, and deliberations that have preceded the publication of this Statement. We especially appreciate the input of those who participated by becoming members of our various task forces, which began work on this and related projects as early as 1985.

The GASB is responsible for developing standards of state and local governmental accounting and financial reporting that will (a) result in useful information for users of financial reports and (b) guide and educate the public, including issuers, auditors, and users of those financial reports. We have an open decision-making process that encourages broad public participation.

Summary

This Statement establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. It establishes that the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of:

Management's discussion and analysis (MD&A). MD&A should introduce the basic financial statements and provide an analytical overview of the government's financial activities. Although it is RSI, governments are required to present MD&A *before* the basic financial statements.

Basic financial statements. The basic financial statements should include:

Government-wide financial statements, consisting of a statement of net assets and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Each statement should distinguish between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units by reporting each in separate columns. Fiduciary activities, whose resources are not available to finance the government's programs, should be excluded from the government-wide statements.

Fund financial statements consist of a series of statements that focus on information about the government's major governmental and enterprise funds, including its blended component units. Fund financial statements also should report information about a government's fiduciary funds and component units that are fiduciary in nature. *Governmental* fund financial statements (including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds) should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. *Proprietary* fund financial statements (including financial data for enterprise and internal service funds) and fiduciary fund financial statements (including financial data for fiduciary funds and similar component units) should be prepared using the economic resources measurement focus and the accrual basis of accounting.

Notes to the financial statements consist of notes that provide information that is *essential* to a user's understanding of the basic financial statements.

Required supplementary information (RSI). In addition to MD&A, this Statement requires budgetary comparison schedules to be presented as RSI along with other types of data as required by previous GASB announcements. This Statement also

requires RSI for governments that use the modified approach for reporting infrastructure assets.

Special-purpose governments that are engaged in only governmental activities (such as some library districts) or that are engaged in both governmental and business-type activities (such as some school districts) generally should be reported in the same manner as general purpose governments. Special-purpose governments engaged only in business-type activities (such as utilities) should present the financial statements required for enterprise funds, including MD&A and other RSI.

Important Aspects of MD&A

MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should include comparisons of the current year to the prior year based on the government-wide information. It should provide an analysis of the government's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. In addition, it should provide an analysis of significant changes that occur in funds and significant budget variances. It should also describe capital asset and long-term debt activity during the year. MD&A should conclude with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

Important Aspects of the Government-wide Financial Statements

Governments should report all capital assets, including infrastructure assets, in the government-wide statement of net assets and generally should report depreciation expense in the statement of activities. Infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as the government manages those assets using an asset management system that has certain characteristics and the government can document that the assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

The net assets of a government should be reported in three categories—invested in capital assets net of related debt, restricted, and unrestricted. This Statement provides a definition of the term *restricted*. Permanent endowments or permanent fund principal amounts included in restricted net assets should be displayed in two additional components—expendable and nonexpendable.

The government-wide statement of activities should be presented in a format that reports expenses reduced by program revenues, resulting in a measurement of "net (expense) revenue" for each of the government's functions. Program expenses should include all direct expenses. General revenues, such as taxes, and special and extraordinary items should be reported separately, ultimately arriving at the change in net assets for the period. Special items are significant transactions or other events that are either unusual or infrequent and are within the control of management.

Important Aspects of the Fund Financial Statements

To report additional and detailed information about the primary government, separate fund financial statements should be presented for governmental and proprietary funds. Required governmental fund statements are a balance sheet and a statement of revenues, expenditures, and changes in fund balances. Required proprietary fund statements are a statement of net assets; a statement of revenues, expenses, and changes in fund net assets; and a statement of cash flows. To allow users to assess the relationship between fund and government-wide financial statements, governments should present a summary reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule.

Each of the fund statements should report separate columns for the general fund and for other major governmental and enterprise funds. Major funds are funds whose revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds. Any other fund may be reported as a major fund if the government's officials believe that fund is particularly important to financial statement users. Nonmajor funds should be reported in the aggregate in a separate column. Internal service funds also should be reported in the aggregate in a separate column on the proprietary fund statements.

Fund balances for governmental funds should be segregated into reserved and unreserved categories. Proprietary fund net assets should be reported in the same categories required for the government-wide financial statements. Proprietary fund statements of net assets should distinguish between current and noncurrent assets and liabilities and should display restricted assets.

Proprietary fund statements of revenues, expenses, and changes in fund net assets should distinguish between operating and nonoperating revenues and expenses. These statements should also report capital contributions, contributions to permanent and term endowments, special and extraordinary items, and transfers separately at the bottom of the statement to arrive at the all-inclusive change in fund net assets. Cash flows statements should be prepared using the direct method.

Separate fiduciary fund statements (including component units that are fiduciary in nature) also should be presented as part of the fund financial statements. Fiduciary funds should be used to report assets that are held in a trustee or agency capacity for others and that cannot be used to support the government's own programs. Required fiduciary fund statements are a statement of fiduciary net assets and a statement of

Interfund activity includes interfund loans, interfund services provided and used, and interfund transfers. This activity should be reported separately in the fund financial statements and generally should be eliminated in the aggregated government-wide financial statements.

Required Supplementary Information

To demonstrate whether resources were obtained and used in accordance with the government's legally adopted budget, RSI should include budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedules should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and balances, stated on the government's budgetary basis. This Statement also requires RSI for governments that use the modified approach for reporting infrastructure assets.

Effective Date and Transition

The requirements of this Statement are effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999. Governments with total annual revenues (excluding extraordinary items) of \$100 million or more (phase 1) should apply this Statement for periods beginning after June 15, 2001. Governments with at least \$10 million but less than \$100 million in revenues (phase 2) should apply this Statement for periods beginning after June 15, 2002. Governments with less than \$10 million in revenues (phase 3) should apply this Statement for periods beginning after June 15, 2003. Earlier application is encouraged. Governments that elect early implementation of this Statement for periods beginning before June 15, 2000, should also implement GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, at the same time. If a primary government chooses early implementation of this Statement, all of its component units also should implement this standard early to provide the financial information required for the government-wide financial statements.

Prospective reporting of general infrastructure assets is required at the effective dates of this Statement. Retroactive reporting of all major general governmental infrastructure assets is encouraged at that date. For phase 1 and phase 2 governments, retroactive reporting is *required* four years after the effective date on the basic provisions for all major general infrastructure assets that were acquired or significantly reconstructed, or that received significant improvements, in fiscal years ending after June 30, 1980. Phase 3 governments are encouraged to report infrastructure retroactively, but may elect to report general infrastructure prospectively only.

Components of This Statement

This Statement consists of several components. The detailed authoritative standards established by this Statement are presented in paragraphs 3 through 166. Appendix C provides nonauthoritative illustrations of MD&A; the basic financial statements required for a variety of types of governments, such as towns, school districts, fire districts, and utilities; notes to those financial statements required by this Statement; and RSI other than MD&A. The reasons for the Board's conclusions on the major issues are discussed in the Basis for Conclusions (Appendix B). Appendix D summarizes how the new standards would be incorporated into the GASB's June 30, 1999, *Codification of Governmental Accounting and Financial Reporting Standards*.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 2 and 3 discuss the applicability of this Statement.