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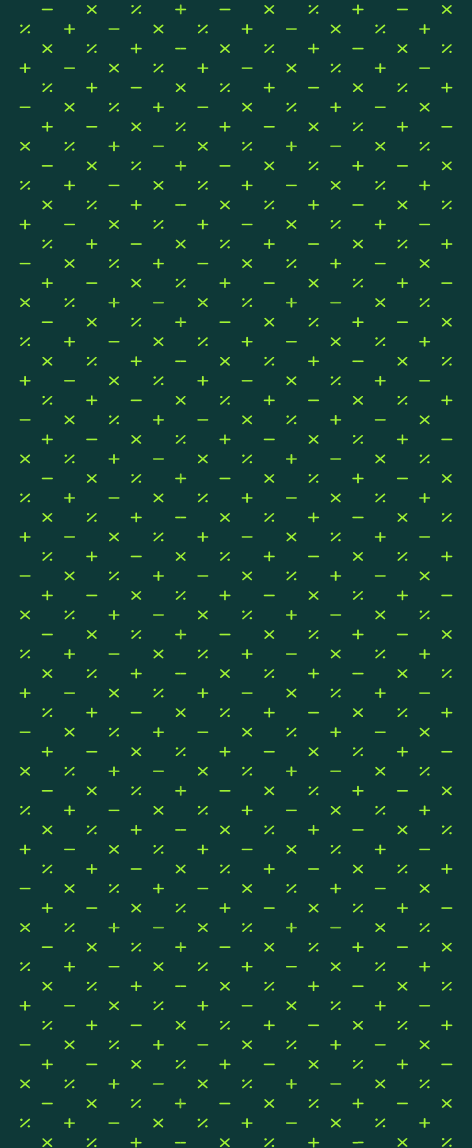
# California Association of Bond Oversight Committees (CABOC) How to Perform an Effective Performance Audit

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Stephen Bacchetti

Arthur Ngo

Tammy Lohr



# Today's Presenters

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## **Stephen Bacchetti**

Director, Capital Projects

[stephen.bacchetti@mossadams.com](mailto:stephen.bacchetti@mossadams.com)

## **Arthur Ngo**

Senior Manager, Financial Statement Audits

[arthur.ngo@mossadams.com](mailto:arthur.ngo@mossadams.com)

## **Tammy Lohr**

Manager, K-14 Performance Audits

[tammy.lohr@mossadams.com](mailto:tammy.lohr@mossadams.com)



# K-14 Team – Capital Projects Performance Audit Practice

- Performs over 50 capital program projects annually, including:
  - Performance audits
  - Capital program assessments
  - Cost compliance and control reviews
  - Change order reviews
  - Contract reviews
- Construction program policies and procedures
- Project and Program sizes range from \$10 million to over \$5.5 billion



# K-14 Team – Financial Statements

- Extensive experience and specialize in K-14 audits, including:
  - Financial statement audits
  - Bond financial statement audits
  - Performance audits
  - Agreed upon procedures



# Agenda

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- California Proposition 39 (Prop 39) Overview
- What Is a Performance Audit?
- How to Perform an Effective Performance Audit
- Common Construction Program Exposures
- Construction Project Risk Factors
- Capital Program Performance Audit Checklist
- Benefits of an Expanded Performance Audit



# California Proposition 39 (Prop 39) Overview

- On November 7, 2000, California voters approved Proposition 39, the Smaller Classes, Safer Schools and Financial Accountability Act.
- California State requirements specify that proceeds from the sale of school facilities bonds are expended only on the specific projects listed in the proposition authorizing the sale of bonds (Listed Projects).
- The measure required a 55% voter approval and specified accountability requirements for school construction bond measures, including requirements for financial statement and performance audits.



# What Is a Performance Audit?

- According to Government Auditing Standards (GAS), “Performance audits are defined as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria.”
- Performance audits may have more than one overall objective.
- Key categories of performance audit objectives include the following:
  - Program effectiveness and results audit objectives
  - Internal control audit objectives
  - Compliance audit objectives
  - Prospective analysis audit objectives



# What Is a Performance Audit?

- Program effectiveness and results: evaluate whether program is meeting its goals and objectives
- Internal controls: assess internal controls relating to compliance, reporting, and goal attainment
- Compliance: assess compliance with established criteria (laws, regulations, contracts, agreements, etc.)
- Prospective analysis: analyze information based on assumptions that may happen in the future
- Completed under Generally Accepted Government Auditing Standards (GAGAS)





# What Is a Performance Audit?

- Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to:
  - Improve operations
  - Reduce costs
  - Strengthen internal controls
- Facilitate decision-making by allowing parties with responsibility to oversee or initiate corrective action and contribute to public accountability
- A capital program performance audit should assess whether an entity is achieving efficiency and effectiveness in the employment of available resources to achieve program compliance, operational, and financial goals



# How to Perform an Effective Performance Audit – GAGAS Requirements

## PLANNING

- ▶ Independence
- ▶ Staffing and CPE
- ▶ Audit plan and risk assessment
- ▶ Fraud risk assessment

## FIELDWORK

- ▶ Sufficiency and appropriateness of evidence
- ▶ Elements of a finding

## REPORTING

- ▶ Quality assurance review
- ▶ Statement of compliance
- ▶ Management response

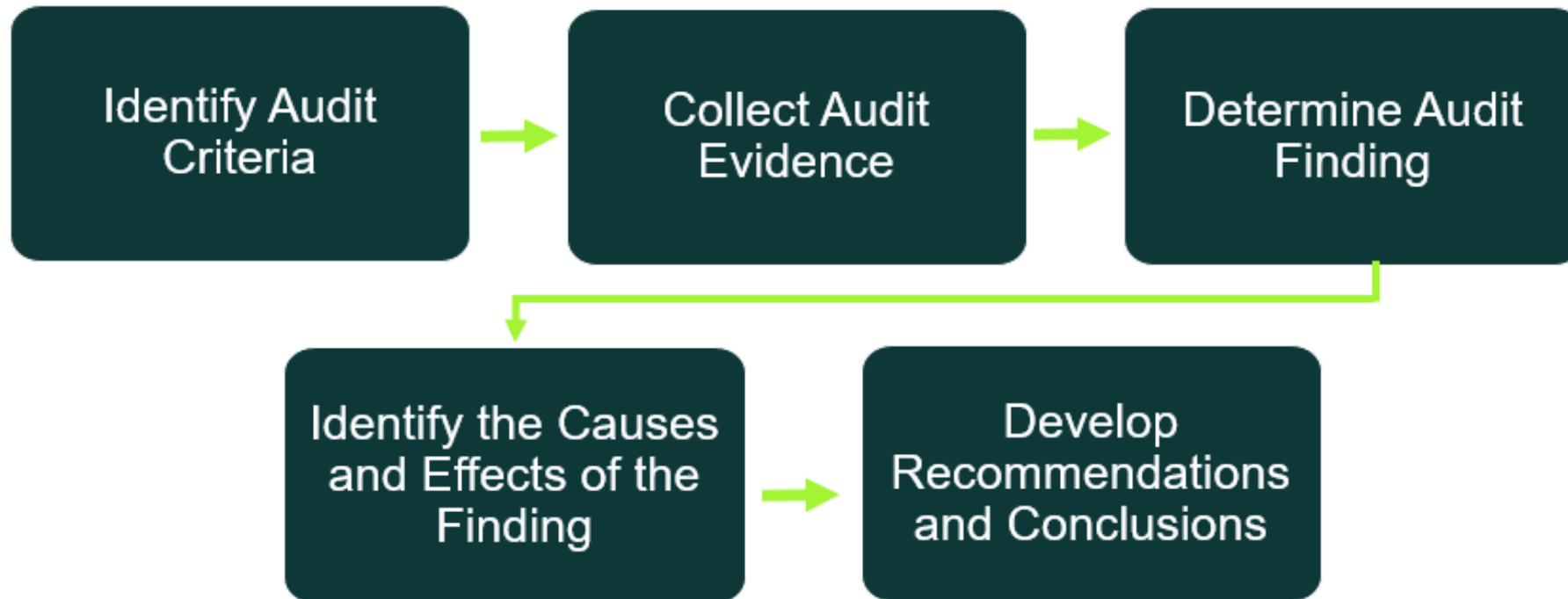


# How to Perform an Effective Performance Audit – Planning: Staffing and CPE Requirements

- Collectively, auditors must have competence needed to address objectives and adhere to GAGAS standards
- Roles
  - Non-supervisory auditors
  - Supervisory auditors
  - Partners and directors
- CPE Requirements
  - 80 hours of CPE every 2 years
    - At least 24 hours directly relating to government or government auditing



# How to Perform an Effective Performance Audit – Fieldwork: The Process



# How to Perform an Effective Performance Audit – Fieldwork: Elements of a Finding

- Develop the elements of a finding
  - Criteria: what you're measuring against (should be done in planning)
  - Condition: the current situation at the auditee
  - Cause: reason that the condition does not match criteria
  - Effect (or potential effect): consequence of the condition not matching criteria



# Reporting: Management Responses

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- Report views of responsible officials regarding:
  - Findings
  - Conclusions
  - Recommendations
  - Planned corrective actions



# Common Construction Program Exposures

- Unfavorable contract terms and controls
- Inaccurate project financial records and reports
- Excessive requirements and scope creep
- Overcharges and costly practices
- Excessive change order costs
- Project and schedule delays
- Construction quality issues
- Project funding not aligned with project plans
- Stakeholder perception issues
- Project staffing
- Capacity of construction companies
- Unfulfilled owner or occupant requirements
- Property and casualty loss
- Claims and disputes



# Construction Project Risk Factors

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- Program and project complexity and size
- Type of contracts
- Owner construction experience
- Project staffing
- Exercise of audit rights
- Funding source
- Schedule impact
- Contracting competition





# Bond Program Performance Audit Checklist (1 of 2)

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- Review of current bond program management program and plan
- Evaluation of design and construction timelines which include benchmarking to industry standards
- Review of project budgets
- Use of best practices and technology regarding the planning and construction of school facilities
- Assessment of payment procedures and payment processing time
- Review of program and construction management structure including staff and fees
- Evaluation of change order procedures and results which include benchmarking to industry standards
- Use of construction project delivery methods and performance analysis



# Bond Program Performance Audit Checklist (2 of 2)

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- Use of best practices for procurement of contractors and professional services and compliance with public contracting code
- Evaluation of public outreach and communication program
- Evaluation of overall transparency of bond program, including but not limited to the evaluation of the bond website information
- Compliance with legal requirements for prevailing wage and labor compliance
- Review performance of independent Citizens Oversight Committee



# Benefits of an Expanded Performance Audit

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- Project economy, efficiency, and cost control
- Prevention of problems and early detection of risks
- Compliance with contract requirements and existing policies and procedures, Public Contracting Code, and Education Code
- Tighter internal controls/project controls
- Reduction in errors and overcharges
- Improved communication
- Evolution toward a culture of continuous improvement
- Protection of stakeholder funds



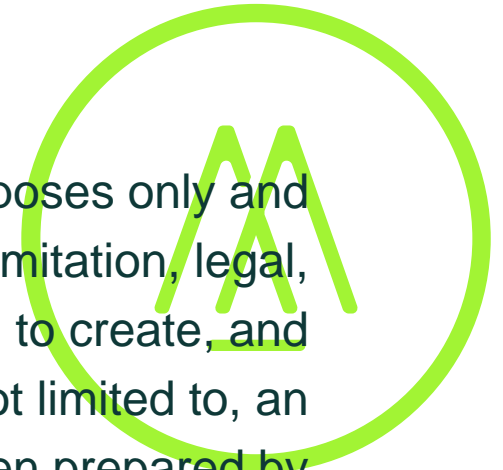
# Questions?

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THANK YOU

