

INTRODUCTION

1. Determine if the Local Educational Agency (LEA) received an apportionment of funds for a school facilities project, or projects, through the School Facility Program (SFP) during the 2017/2018 or the 2018/2019 fiscal years by reviewing the State Allocation Board's list of apportioned projects located on the Office of Public School Construction (OPSC) website under "K – 12 Audit Resources" (SFP Expenditure Audit Workload Report).
2. If the LEA received an apportionment of funds pursuant to step (1), determine if the funded project, or projects:
 - a. Received a fund release on or after April 1, 2017.
3. If the LEA received an apportionment of funds pursuant to step (1) and the project, or projects, meets the condition pursuant to step (2), determine if the project, or projects, meets any of the following conditions:
 - i. The project, or projects, was/were completed during the 2017/2018 or 2018/2019 fiscal years by reviewing the project, or projects, details on the OPSC website (K-12 Audit Resources).
 - ii. The project, or projects, failed substantial progress by reviewing the project(s) folder on the OPSC website (K-12 Audit Resources) for a letter to the LEA indicating they failed substantial progress on the project, or projects.
 - iii. The LEA requested the project, or projects, be reduced to costs incurred by reviewing the project(s) folder on the OPSC website (K-12 Audit Resources) for a letter from the LEA requesting the project, or projects, be reduced to costs incurred.
 - a. If yes to any of the conditions pursuant to step (3), perform the audit steps reflected in Section A of these audit procedures for any completed projects, projects that failed substantial progress, or projects that an LEA requested a reduction to costs incurred.
4. If the LEA received an apportionment of funds pursuant to step (1), the project(s) meets the condition pursuant to step (2), and the project(s) were completed pursuant to step (3)(a), determine if the LEA reported any savings for the applicable SFP project by reviewing the savings refreshable report on the OPSC website (K-12 Audit Resources).
 - a. If yes, perform the audit steps reflected in Section J of these audit procedures for any identified project savings.
The audit procedures subsequent to Section A shall also apply to LEAs with projects determined to meet the criteria pursuant to step (3).

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A. PRELIMINARY REVIEW

1. Review letter(s) from OPSC located on OPSC website (K-12 Audit Resources) detailing what was verified at Substantial Progress and any issues and/or findings identified with the project.
2. Identify: (1)the Application for Funding (Form SAB 50-04) on the OPSC website (K-12 Audit Resources), and (2)Transaction Detail in "Project Tracking" located on the OPSC's website (Project type, county, district, site detail, and project number can be obtained from the State Allocation Board's project approval document for the applicable project):
<https://www.dgsapps.dgs.ca.gov/OPSC/PT/Pt/Default.aspx>

Enter the following information:

- Project Type
- County
- District
- Site

Select the project number under search results.

Review the State Allocation Board (SAB) approval item(s) on the OPSC website (K-12 Audit Resources) for each project selected for audit.

3. Verify any statutorily required District matching funds have been expended by the District prior to the "Notice of Completion" by reviewing the State Allocation Board's project approval document for the applicable project. The State Allocation Board's project approval document for the applicable project can be obtained on the OPSC's website (K-12 Audit Resources).
Authority: Education Code Sections 17072.30, 17074.16, 17078.72(g)(1), 17078.54(d), and 17075.10(b)(2); Form SAB 50-04 Certifications, Grant Agreement (Section D, paragraph 9)
4. Verify the Grantee has maintained over the course of the project a general ledger that reflects expenditures at a

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Project-specific level that includes fund, resource, project year, goal, function, and object codes for all expenditures for the Project, including furniture and equipment, as they are described in the California School Accounting Manual, Procedure 301: Overview of the Standardized Accounting Code Structure and Procedure 345: Illustrations Using Account Code Structure. Pursuant to Grant Agreement (Section F, paragraph 1).

Authority: Education Code Section 17076.10

5. Verify if the project was granted Financial Hardship (FH) status and determine if the project’s FH status expired prior to the project receiving an apportionment for either a design, site grant, or construction grant by reviewing the following located on the OPSC website (K–12 Audit Resources):
- The SAB Board Item
 - FH approval letter provided to the LEA

Projects that received a FH approval for the construction grant should be tested as a FH project pursuant to the audit steps in Section E.

Projects that do not have an approved FH status for construction grant(s) shall be audited as a Non-FH project. In addition, savings realized from a Non-FH project shall be treated pursuant to the applicable audit steps in Section I.
Authority: SFP Regulation Section 1859.81(e)

6. State in a finding: (1) if the grantee has not maintained proper accounting records as determined pursuant to Step 4 and (2) if the statutorily required matching funds were not expended prior to the Notice of Completion as determined by Step 3.

B. SUBSTANTIAL PROGRESS – REDUCTION TO COSTS INCURRED

Verify if the project(s) failed substantial progress using the documentation supplied to the district by the OPSC located on the OPSC website (K-12 Audit Resources), or if a LEA requested their project(s) be reduced to costs incurred.

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1. Determine which grant(s) the project received by reviewing the SAB apportionment item and Grant Agreement, if applicable, located on the OPSC website (K-12 Audit Resources). The following audit procedures should be completed for each applicable type of grant received for a project:
 - a. Design Grant (New Construction or Modernization project) – Complete Sections C, D, and F for FH projects.
 - b. Site Grant (New Construction project) – Complete Sections F for FH Projects and G (Items 1-6).
 - c. Site Grant (Charter project) – Complete Section G (Items 1-6).
 - d. Adjusted Grant (New Construction, Modernization, Charter, or CTE project) – Complete Sections C, D, E, F for FH Projects, and G (Items 1-7).
 - e. Adjusted Grant (Modernization or CTE project) – Complete Sections C, D, E, F for FH Projects, and G (Item 7).

2. Determine and report the amount of unspent funds or overspent amount to be returned to the State.
 - a. Calculate the unspent funds or overspent amount by applying the following formula:

Unspent funds or Overspent amount = (Grant(s) received + district contribution + interest (on State funds)) – reported expenditures.

 - i. Unspent funds due to the State (if reported expenditures are less than project financing)
 - ii. Overspent amount due to the State (if reported expenditures are more than project financing)

3. Determine the amount of expenditures that occurred prior to fund release (for each grant received) did not exceed the district’s contribution.

To make this determination follow the procedure detailed in Section D, item 1.

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Any expenditure prior to fund release that exceeded the district contribution will decrease the FH apportionment and increase the district contribution accordingly and those funds will be due the State.

4. Display the apportionment reduction and the amount that needs to be returned to the State on the Schedule of School Facility Program (SFP) Determination of Substantial Progress Reduction.

The amount to be returned to the State for Substantial Progress adjustment includes: (1) The Unspent Funds or Overspent Amount and (2) Expenditures prior to fund release that exceeded district contribution.

5. State in a finding the amount of ineligible expenditures due the State that were determined through the applicable audit procedures for the types of grants received for the project.

The total amount to be returned to the State includes: (1) The Substantial Progress adjustments and (2) Any ineligible expenditures.

C. GENERAL TESTING – ALL SFP PROJECTS

1. Determine if project expenditures are allowable. Select a representative sample of the project expenditures reported on the final SAB 50-06 and Detailed Listing of Project Expenditures (DLOPE) located on the OPSC website (K-12 Audit Resources) to perform the following procedures:
 - a. Determine if expenditures reconcile with supporting documentation.
 - 1) Determine if the invoices reported for the project and the project's General Ledger (GL) reconcile to the expenditures reported on the Final form SAB 50-06 and the DLOPE. Invoices or contracts prorated over multiple projects may not reconcile to amounts listed on the SAB form 50-06 and the DLOPE.

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- 2) Determine if any of the sampled expenditures are prorated over multiple projects. If the LEA prorated an invoice or contract over multiple projects, verify the amount prorated to the project is correct.

The LEA must provide documentation demonstrating the proration method used for the project.

- i. Documentation should include a Construction Schedule of Value or other documents which establishes estimated work vs actual work completed.
 - ii. If documents are not provided it could result in a audit finding for ineligible expenditures
- b. Determine if the type of project expenditures reported are eligible by applying the laws and regulations of the School Facility Program and the Advisory Listings in the Grant Agreement (Section G & Section H).

Per Education Code Section 41024 the State share of any ineligible expenditures will be returned to the State.

Authority: Education Code Section 17072.35, 17074.35 and 41024; SFP Regulation Section 1859.106; 1859.79.2; 1859.120; 1859.140; 1859.160; Grant Agreement Section F, Paragraph 4.

2. Determine if the expenditures were made within an eligible time frame (prior to completion date) by reviewing expenditure dates and sampled supporting documentation.
- A project is deemed complete per the criteria detailed in SFP Regulation Section 1859.104(a)(1)(A)&(B).
 - Expenditures made after the completion date are not eligible for State Funding.
 - If expenditure was made after the completion date but was under contract prior to the completion date then it will be considered eligible for funding.

Authority: SFP Regulation Section 1859.104(a)(2)

3. Verify the final DLOPE grand total for the project reconciles to the district's general ledger grand total for the project. If

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not, determine the cause of the discrepancy and if a finding and adjustment to the eligible expenditures is necessary.

- 4. State in a finding: (1) the amount of reported expenditures that were determined through the preceding audit procedures to be ineligible for State funding and document the amount of the ineligible expenditure(s) that will be remitted to the State, (2) if the final DLOPE grand total for the project reconciles to the district's general ledger grand total for the project, and (3) for projects that do not reflect invoices or contracts that prorated across multiple projects, if the invoices reported for the project and the project's General Ledger (GL) do not reconcile to the expenditures reported on the SAB form 50-06 and the DLOPE for projects.

5. **PLANNING COSTS**

- a. Review Architect contract to perform the following procedures:
 - i. Determine if the final contracted amount reconciles to the final billing amount.
 - ii. Determine if the expenditures reported for an Architect contract on the Final Form SAB 50-06 and DLOPE were paid to the architect by reconciling against the LEA's General Ledger and final billing.
- b. State in a finding any architect expenditures that were determined ineligible because they either exceeded the final contracted amount or because the identified expenditure was not paid to the architect.

6. **CONSTRUCTION COSTS**

- a. Select a sample of construction contracts, including change order amounts, and associated final billings to perform the following procedures:
 - i. Reconcile the expenditures and dollar amounts authorized in the contract (after addendums and change orders) with the final billing.

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ii. Reconcile the expenditures reported on the Detailed Listing of Project Expenditures (DLOPE) and General Ledger with the final billing to ensure the expenditures were not over reported. Any expenditure beyond the contract amount (including change order amounts) are not eligible for State funding.

*Authority: Education Code Section 17072.35 and 17074.25;
SFP Regulation Section 1859.106.*

- b. Determine if there are any changes to the project scope by reviewing change orders. An example would include the addition or deletion of classrooms.
- i. Verify if identified changes to project scope were approved by the SAB. Any change in the scope the SAB did not approve will result in ineligible project expenditures or a reduction in project grants and needs to be reported as a finding pursuant to step f. of this section.
- c. For construction contracts sampled, review documentation substantiating compliance with provisions of the Public Contracting Code (PCC) concerning competitive bidding.
Authority: PCC Section(s) 20110 & 20111.
- i. Include in the finding pursuant to step f. of this section if the construction contracts did not comply with the provisions of the Public Contracting Code (PCC) concerning competitive bidding.
- d. Identify the Construction manager contract, verify contract amount, and review the final billing.
- i. Verify costs reported for the Construction Manager reconciles with the costs paid on the final billing.
- Any expenditure beyond the final billing amount are not eligible for State funding and should be noted in the finding pursuant to step f. of this section.
- e. i. Determine if the LEA spent 60 percent of the project funding on hard construction costs. When the LEA

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submitted their application for funding they certified that the cost estimate of construction work or construction contract(s) submitted to the Department of State Architect was greater than 60% of the total grant. Hard construction costs is defined as funds spent physically constructing a building (brick and mortar costs). The percentage can be calculated as follows:

Percentage spent on hard construction = Total Reported Construction Expenditures/Total Grant

For any New Construction projects that received a site acquisition, relocation assistance, hazardous waste removal, or a DTSC grant those amounts are not included in the "Total Grant" portion of the calculation.

Construction manager expenditures are not included in the "Total Reported Construction Expenditures" portion of the calculation because that is not a hard construction cost.

ii. Note in the report if the project spent less than 60 percent on hard construction costs.

- f. State in a finding any ineligible expenditure(s) identified in the preceding audit procedures.

- 7. Review the transfers of SFP funds out of Fund 35 (School Facility Fund) to other LEA funds to determine if they are allowable. State in a finding any transfer out of Fund 35 that are not eligible.

- 8. Determine if interest reported on the final SAB 50-06 is correct by comparing amounts recorded in the general ledger and other interest documentation. State in a finding if improper interest amounts have been reported.

THE PROCEDURES DETAILED IN SECTIONS D THROUGH H ARE SPECIFIC TO THE TYPE OF PROJECTS BEING AUDITED.

D. FINANCIAL HARDSHIP PROJECTS

- 1. Determine if expenditures made prior to the fund release

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date exceeded the District’s contribution by performing the following procedure:

Check the SAB Board item and/or the District’s FH approval letter for amount of District contribution applied to the project(s) and compare it to expenditures on the final expenditure report that occurred prior to the fund release. If the expenditures prior to fund release did exceed the district contribution the FH apportionment will be reduced by the amount exceeded.

This determination shall be completed for each phase if the LEA received a separate design and/or separate site grant before receiving the construction grant.

- Exception – Per the SAB approved Bridge Financing/Interfund Borrowing policy, the district temporarily borrowed funds to move their FH project(s) along while they were on the unfunded list.
- The LEA’s project(s) should have FH approval prior to any bridge financing/borrowing otherwise the expenditures will be considered contribution due to expenditure.
- Any financing instrument issued for bridge financing must be retired within 60 days of receipt of State funding.

State in a finding the amount of expenditures that occurred prior to the fund release date that exceeded the District’s required contribution.

Authority: SFP Regulation Section 1859.81(a)

E. NEW CONSTRUCTION PROJECT(S)

1. Site Purchase

Identify if the project received a grant for site purchase. If Yes, complete procedure and procedure number two. If No, go to procedure number three.

- a. Verify if the reported amount for the site purchase reconciles to the final escrow amount

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Per SFP Regulation Section 1859.74(a) The actual cost of the site shall be the purchase price as shown on the final escrow documents or other appropriate documents such as court orders in condemnation or based on the final appraisal. Actual site purchase costs will exclude all other site costs such as relocation assistance, DTSC, hazardous waste removal, and other site related expenses.

- b. Verify the reported amount for the site purchase reconciles to the grant amount. The site grant funding is approved by the State Allocation Board based on the lesser of the actual costs vs the appraised value of the site. If reported amount for the site purchase is different than the grant amount, determine if the grant needs to be increased or decreased.
 - i. If the reported site purchase amount is greater than the grant amount then determine if the increased costs are eligible for a grant adjustment.
 - ii. If the reported site purchase amount is less than the grant then the grant will be decreased.

Authority: Ed Code Section 17072.12; SFP Regulation Section 1859.74; 1859.74.1; 1859.74.5; 1859.106

- 2. Verify the number of acres purchased is consistent with the approved acreage from the State Allocation Board (SAB) approval Item. If not, site acquisition funding shall be prorated and reduced if the District purchased more acreage than the master plan site size determined by California Department of Education (CDE) and shall be included in the audit report pursuant to step 6 of this section. The approved acreage and the master plan acreage can be found on the CDE final site approval letter that can be located on the OPSC website (K-12 Audit Resources).
Authority: SFP Regulation Section 1859.74; 1859.74.3

- 3. **Site Relocation:**
Identify if the project received a grant for site relocation assistance. If Yes, complete the procedure. If No, then go to procedure number four.

Review reported relocation costs, test sample of reported

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costs by tracing to warrants and supporting documents to determine if reported costs are allowable pursuant to Title 25, CCR, Section 6000, Education Code Sections 17072.13, 17072.35 and the Advisory Listing Detailing Common Eligible and Ineligible Project Expenditures in the Grant Agreement (Section G & H).

- a. Determine if the grant needs to be increased or decreased by completing the following:
 - i. Compare the grant for relocation assistance to the amount of eligible relocation expenditures reported. Determine the amount of eligible expenditures by subtracting any audit adjustments from the reported expenditures. Audit adjustments can be made for (1) ineligible expenditures or (2) miscategorized expenditures.
 - ii. Calculate:
Eligible expenditures (determined by audit) – grant for relocation = grant adjustment.

A positive number means the grant will be adjusted increased and a negative number means the grant will be decreased.

See the OPSC website (K-12 Audit Resources) for a detailed list of possible site relocation expenditures and procedures for eligibility based on Title 25, CCR, Section 6000.

Authority: SFP Regulation Section 1859.74(a)(1) and (b)(1); 1859.74.2(b); 1859.74.3(b); 1859.74.5(b)(2); 1859.74.6(a)(1)(A); 1859.75.1(b)(2). Applicable adjustment see Title 25, CA Code of Regulations Section 6000 and SFP Section 1859.106

- 4. **Site Hazardous Waste Removal Costs:**
Determine if the project received a grant for hazardous waste removal or the LEA reported hazardous waste removal costs. If Yes, complete the procedure. If No, go to procedure number five.

Sample reported Site Hazardous Waste Removal Costs by

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tracing contracts or invoices that support costs to determine if reported costs are allowable pursuant to Education Code Sections 17072.13, 17072.35 and the Advisory Listing(s) Detailing Common Eligible and Ineligible Project Expenditures in the Grant Agreement (Section G & H).

- a. Determine if the grant for Hazardous Waste Removal requires an adjustment by completing the following procedures:
 - i. Compare the grant for hazardous waste removal to the amount of eligible hazardous waste expenditures reported. Determine the amount of eligible expenditures by subtracting any audit adjustments from the reported expenditures. Audit adjustments can be made for (1) ineligible expenditures or (2) miscategorized expenditures.
 - ii. Calculate the following:
Eligible Expenditures (determined by audit) – Grant for Hazardous Waste = Grant Adjustment.

A positive number means the grant will be increased and a negative number means the grant will be decreased.

See the OPSC website (K-12 Audit Resources) for detailed procedures on reviewing hazardous waste costs for eligibility.

Authority: SFP Regulation Section 1859.74.2; 1859.74.3; 1859.74.4 and 1859.106

- 5. **Department of Toxic Substance Control Costs:**
Determine if the project received a grant for Department of Toxic Substance Control (DTSC) fees. If Yes, complete the procedure. If No, go to procedure number six.

Select a sample of reported DTSC costs to determine if they are allowable by tracing contracts or invoices that support costs, pursuant to Education Code Sections 17072.13, 17072.35 and the Advisory Listing(s) Detailing Common Eligible and Ineligible Project Expenditures in the Grant Agreement (Sections G & H).

- a. Determine if the grant for DTSC fees requires an adjustment

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by completing the following procedures:

- b. Compare the grant for DTSC fees to the amount of eligible DTSC expenditures reported. Determine the amount of eligible expenditures by subtracting any audit adjustments from the reported expenditures. Audit adjustments can be made for (1) ineligible expenditures or (2) miscategorized expenditures.
- c. Calculate the following:

Eligible Expenditures (determined by audit) – Grant for DTSC Fees = Grant Adjustment

A positive number means the grant will be increased and a negative number means the grant will be decreased.

See the OPSC website (K-12 Audit Resources) for detailed procedures on reviewing DTSC costs for eligibility.

Authority: SFP Regulation Section 1859.74(a)(3) and (b)(3); 1859.106

- 6. State in the audit report any necessary site grant adjustment(s) that was/were determined through the audit procedures 1 through 6 of this section. In addition, display on the “Schedule of School Facility Program (SFP) Site Grant Adjustments”.
- 7. Verify if the OPSC identified the Date of Occupancy occurred after the application for funding during the Fund Release review process.
 - a. If it was not identified by OPSC then, determine the Date of Occupancy by reviewing any of the following documentation:

Documentation which details date of occupancy:

 - School Board Minutes
 - Fire Marshall Inspection Letter
 - Copy of news story indicating the date school opened
 - Notice of Completion

The date must be after the application for funding (Form

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SAB 50-04) was received by the OPSC or the project is not eligible for SFP funding and may be rescinded.

- b. State in a finding if the date of occupancy occurred prior to application for funding date and the amount of funding that may be rescinded.

F. CHARTER SCHOOL FACILITIES PROGRAM

- 1. Verify expenditures made with the Final Charter School Apportionment comply with Education Code Section 17072.35 and 17078.54(a) and the Grant Agreement Section G.
- 2. Determine if construction contract was entered into on or after September 27, 2002. Expenditures for construction are eligible only if the construction contract was entered into on or after that date.
- 3. For any Charter School New Construction projects that received a site acquisition, relocation assistance, hazardous waste removal, or a DTSC grant follow the applicable procedures detailed in Section 6, items 1-6 to determine the eligible site expenditures and grant adjustment.
- 4. Calculate and report the State share of remaining unused funds on the Charter School project:

State Share of Unused Funds =
(Grant Amount + District Contribution + Interest – Final Expenditures reported to OPSC) / 2.

For any Charter School New Construction projects that received a site acquisition, relocation assistance, hazardous waste removal, or a DTSC grant those amounts, plus any reported expenditures associated with those grants, are not included in the calculation of unused funds.

Projects funded under the Charter School Facility Program (CFSP) do not generate savings pursuant to SFP Regulation Section 1859.103. In addition, State funds remaining at the completion a project may not be used to satisfy the local match obligation. State in the audit report any remaining

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State share of funds that must be returned to the State.
*Authority: Education Code Section 41024(b)(1)(D); SFP
Regulation Section 1859.103; SFP Regulation Section
1859.169.1; 1859.163.2; 1859.163.3 and Grant Agreement
Section F, paragraph 5*

5. State in a finding any ineligible charter school expenditures that were determined through the preceding audit procedures.

G. CAREER TECHNICAL EDUCATION

1. Determine if expenditures incurred within the eligible 4-year period.

A CTE project shall be deemed complete when either of the following occurs, whichever occurs first:

- The final notice of completion is filed for the project;
or
- Four years have elapsed from the final fund release for the project.

2. Calculate and report the State share of remaining unused funds on the Career Technical Education project:

State Share of Unused Funds =
(Grant Amount + District Contribution + Interest – Final
Expenditures reported to OPSC) /2

A district may not retain savings realized from by a Career Technical Education Facilities Project. The State share (50%) of any unused funds will be returned to the State.
Authority: SFP Regulation Section 1859.199 and Grant Agreement Section F, paragraph 5

3. State in a finding any Career Technical Education expenditures that were determined ineligible through the preceding audit procedures because they occurred outside the eligible four year period. State in the audit report any remaining state share of funds that must be returned to the State. The State share of any unused funds is 50 percent.

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H. UNFUNDED LIST

Projects that were added to the Unfunded List between May and October 2012 and received State Allocation Board approval for placement on the Unfunded List (Lack of AB 55 Loans) on June 5, 2017, are not subject to a Grant Agreement.

However, these projects are still subject to the performance audit required in Education Code section 41024.

1. Verify if the project is part of the Unfunded List between May and October 2012 by reviewing project funding on the OPSC website www.dgs.ca.gov/opsc/PT/pt/Default.aspx. If yes, then proceed to procedure number two. If no, then stop here. The rest of the procedures in this section do not apply.
2. Determine if the local education agency purchased Computers, Printers, and computer carts.
 - a. If Computers, Printers, and computer carts were purchased, verify the following documentation to determine if expenditures were made within the scope of the project funded:

The District must submit a letter or other documents which details:

- Location of computers
- Use of computers
- District's rationale for the amount of computers purchased

Per Education Code Section 17071.25(a)(2)(A) the California classroom loading standard has been used to determine number of eligible computers.

- K-6 = 25 pupils per classroom
- 7-8 = 27 pupils per classroom
- 9-12 = 27 pupils per classroom
- Non-Severe = 13 pupils per classroom
- Severe = 9 pupils per classroom

In addition to above, one additional computer per classroom has been allowed for the teaching station.

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- b. Determine the number of classrooms approved for the project and type of project approved by reviewing the SAB item that approved the project apportionment.
- c. Calculate the number of eligible computers.

Eligible Computers = (Number of classrooms x loading standard (as determined by type of project)) + (1 additional computer (teaching station) x number of classroom)

Computers reported beyond the calculated eligible computer total are not eligible for State funding.
Authority: Education Code Section 17071.25(a)(2)(A); SFP Regulation Section 1859.51(l) and 1859.61(g)

- d. Identify number of ineligible computers
- e. Calculate amount associated with ineligible computers.

For the purpose of this section, computers means desktops, laptops, tablets, portable devices, printers, and computer carts
Authority: Education Code Section 17071.25(a)(2)(A); SFP Regulation Section 1859.51(l) and 1859.61(g)

- 3. State in a finding any computers that were determined ineligible and the amount associated with the ineligible computers that must be returned to the State,

I. DETERMINATION OF PROJECT SAVINGS

Savings for Non-Financial Hardship new construction and modernization projects, including interest, and its use for high priority capital needs of the LEA shall be audited on an annual basis until ALL savings plus interest has been expended pursuant to Education Code Section 41024(b)(1)(B).

- 1. Calculate and display the savings on the Non-Financial Hardship New Construction project on the "Schedule of School Facility Program (SFP) Determination of Project Savings":

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Savings = Grant Amount + District Contribution + Interest (Earned on State Funds) – Final Expenditures reported to the Office of Public School Construction.

For any New Construction projects that received a site acquisition, relocation assistance, hazardous waste removal, or a DTSC grant those amounts, plus any reported expenditures associated with those grants, are not included in the calculation of savings.

A negative number in the calculation means there were more eligible expenditures reported on the project than project funding, therefore the project is overspent and there is no savings to report or track in subsequent years

Savings from a Non-Financial Hardship new construction project may be retained by the District to use on any High Priority Capital needs of the District that is consistent with eligible expenditures detailed in Section H of the Grant Agreement.

The State’s portion of any savings from a new construction project may be used as a district matching share requirement, only on another new construction project.

Authority: Education Code Section 17070.63(c); 41024(b)(1)(B); and SFP Regulation Section 1859.103

2. Calculate and display the savings on the Financial Hardship New Construction project on the “Schedule of School Facility Program (SFP) Determination of Project Savings”.
 - a. Savings = Grant Amount + District Contribution + Interest (Earned on State Funds) – Final Expenditures reported to the Office of Public School Construction.

For any New Construction projects that received a site acquisition, relocation assistance, hazardous waste removal, or a DTSC grant those amounts, plus any reported expenditures associated with those grants, are not included in the calculation of savings.

Pursuant to SFP Regulation Section 1859.103, savings from a

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Financial Hardship New Construction project may be returned to OPSC or held up to three years to offset the apportionment on a future Financial Hardship project.

After three years any unused saving plus interest must be returned to the state.

A negative number in the calculation means there were more eligible expenditures reported on the project than project funding, therefore the project is overspent.

A Financial Hardship project that is overspent has the following choices for the overspent amount:

- 1) Apply the overspent amount to a future hardship project of the LEA, if they apply for funding within the next three years.
- 2) If the LEA stays out of the Financial Hardship Program for three years then the overspent amount is not due back the State.

Authority: Education Code Section 41024(b)(1)(F); SFP Regulation Section 1859.103 and 1859.106(a); Grant Agreement Section F, Paragraph 8

3. Calculate and display the savings on the Non-Financial Hardship Modernization project on the "Schedule of School Facility Program (SFP) Determination of Project Savings".
 - a. Savings = Grant Amount + District Contribution + Interest (Earned on State Funds) – Final Expenditures reported to the Office of Public School Construction.

Savings from a Non-Financial Hardship modernization project may be retained by the District to use on any High Priority Capital needs of the District that is consistent with eligible expenditures detailed in Section H of the Grant Agreement.

The State's portion of any savings from a modernization project may be used as a district matching share requirement, only on another modernization project.

Authority: Education Code Section 17070.63(c); 41024(b)(1)(B) and SFP Regulation Section 1859.103

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- 4. Calculate and display the savings on the Financial Hardship Modernization project on the “Schedule of School Facility Program (SFP) Determination of Project Savings”.
 - a. $\text{Savings} = \text{Grant Amount} + \text{District Contribution} + \text{Interest (Earned on State Funds)} - \text{Final Expenditures reported to the Office of Public School Construction.}$

Pursuant to SFP Regulation Section 1859.103, savings from a Financial Hardship modernization project may be returned to OPSC or held up to three years to offset the apportionment on a future Financial Hardship project.

After three years any unused saving plus interest must be returned to the state.

A negative number in the calculation means there were more eligible expenditures reported on the project than project funding, therefore the project is overspent.

A Financial Hardship project that is overspent has the following choices for the overspent amount:

- 1) Apply the overspent amount to a future hardship project of the LEA, if they apply for funding within the next three years.
- 2) If the LEA stays out of the Financial Hardship Program for three years then the overspent amount is not due back the State.

Authority: SFP Regulation Section 1859.103; Grant Agreement Section F, Paragraph 8

J. SAVINGS AUDIT

A savings audit will be conducted on School Facility Program New Construction and Modernization Non-Financial Hardship projects when savings from a previously closed project has been reported during the fiscal year.

- 1. Reconcile the savings reported on the Form SAB 50-06 and Detailed Listing of Project Expenditures to the LEA’s General Ledger and other account records to determine the correct

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amount of savings was reported for the period.

The Savings report(s) submitted to the State, and found on the OPSC website (K-12 Audit Resources), are final and may not be adjusted or amended.

2. Review the LEA’s savings report(s), related invoices, and construction billings to determine if the use of savings is eligible.

Reported savings expenditures must be consistent with the eligible expenditures detailed in Section H of the Grant Agreement.

3. State in an audit finding: (1) Reported savings that does not reconcile to LEA’s accounting records and (2) any savings spent on ineligible expenditures that will be remitted back to the State.

4. Document in a Note to the Financial Statements the amount of eligible savings reported and any remaining savings balances that need to be reported in subsequent fiscal years.

The following procedures are specific to previous closed Financial Hardship projects with savings:

5. a. Identify if the LEA had any previous closed Financial Hardship projects with savings and chose to retain the savings to apply to a future Financial Hardship project within the next three years.

To identify any previous closed Financial Hardship projects with savings review the following documents:

- Previous audit reports.
- Letter from LEA to OPSC indicating choice to retain Financial Hardship savings for three years
- Letter(s) from OPSC detailing what was reviewed at substantial progress and any issues with LEA

Did the LEA have previous closed Financial Hardship projects with savings they chose to retain for three years? If

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No, then stop here. If Yes, then complete the following procedures:

- b. Determine if the savings has been applied to another project or if the three-year time frame has elapsed.
- c. If three years has elapsed without all the savings being applied to another Financial Hardship project then document in the Note section of the audit report the following:
 - i. Notify the LEA the amount of savings plus interest now due the State since three years has elapsed. Inform them they will be contacted by the OPSC to collect the savings balance detailed in a previous audit report.
 - ii. Notify the Office of Public School Construction the amount of savings, detailed in a previous audit report that must be collected from the LEA.

K. REPORTING OF AUDIT FINDINGS

- 1. Prepare and present all findings determined in the preceding audit procedures in the "Schedule of School Facility Program (SFP) Audit Finding Summary".