



Seattle Public Schools The Office of Internal Audit

Internal Audit Report Accuracy and Reliability of Financial Reporting Capital Programs

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Background and Audit Scope

In accordance with the *Capital Risk Assessment and Audit Plan* approved by the Audit and Finance Committee, we completed an audit of the accuracy and reliability of financial reporting for the district's capital programs.

The Capital Projects Fund: Sources and Uses

The Capital Projects Fund accounts for the financial resources used to acquire or construct major capital facilities. Revenue for the Capital Projects Fund is generally derived from proceeds from special levies, the sale of voted and/or non-voted bonds, state assistance revenues, lease or sale of surplus real property, and interest earnings.

Capital Projects Fund resources can be used to acquire land or existing facilities, construct buildings, purchase equipment, conduct energy audits, and make capital improvements as a result of energy audits. Under certain conditions, expenditures for improvements to buildings and/or grounds; remodeling of buildings; and replacement of roofs, carpets, service systems, and technology are paid from the Capital Projects Fund.

For the district, the most common interfund transfers involving the Capital Projects Fund include the following:

- transfers to the Debt Service Fund to meet debt payments
- transfers to the General Fund to reimburse for salary, inventory, and work-order expenditures
- transfers to the General Fund to pay certain ongoing technology expenditures
- transfers to the General Fund to pay major preventive maintenance costs

Capital Programs Reporting

The Accounting Department prepares a *Monthly Financial Report* containing fiscal year-to-date financial statements for all district funds. This report is presented to the Board of Directors' Audit and Finance Committee.

Important financial information about the Capital Projects Fund and the programs that comprise it is reported monthly to the Operations Committee, in the form of a *Capital Programs Monthly Summary Report*. For each capital program, the report presents life-to-date revenue, expenditures, transfers, current balance, and estimated ending balance. As of June 2015, the following programs were being reported:

- Building Excellence (BEX) II capital levy
- Buildings, Technology and Academics (BTA) II capital levy
- Building Excellence (BEX) III voter-approved bond
- Buildings, Technology and Academics (BTA) III capital levy
- Building Excellence (BEX) IV capital levy
- *Capital Eligible Program (CEP)

* Non-levy funding source; capital projects fund revenue derived from leases and surplus property sales.



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Audit Objectives

The audit was designed to address the following questions:

1. Is the financial information presented in the *Capital Programs Monthly Summary Report* accurate and reliable for the purposes of oversight and decision making?
2. Does preparation of the *Capital Programs Monthly Summary Report* and the *Monthly Financial Report* represent a duplication of staff effort?

Audit Approach and Methodology

To accomplish the audit objectives, we performed the following procedures:

- Examined the contents of the Capital Programs Monthly Summary Report
- Gained an understanding of the process used to prepare and review the report
- Interviewed staff responsible for preparing and reviewing the report
- Identified the needs of the primary users of the Capital Programs Monthly Summary Report
- Evaluated the overall effectiveness of internal controls over financial reporting
- Analyzed one years' worth of Capital Programs Monthly Summary Reports to establish trend activity and expected changes
- Read five months of the reports for accuracy, consistency, and adequate disclosures
- Tested individual balances and changes for accuracy and timeliness
- Compared a sample of Capital Programs Monthly Summary Reports to a sample of Monthly Financial Reports
- Compared the procedures for preparing the Capital Programs Monthly Summary Reports to the procedures for preparing the Monthly Financial Reports

Conclusion

Based on our audit procedures, the *Capital Programs Monthly Summary Reports* are materially accurate and can be relied upon for oversight and decision making. The information presented in the reports is consistent with the *Monthly Financial Reports*. However, we found no duplication of efforts in the preparation of the two reports.

We appreciate the assistance provided to us throughout the audit by staff from Capital Finance and Accounting.

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