

**PROPOSITION S BOND BUILDING FUND OF  
SAN DIEGO UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT**

**For the Fiscal Year Ended  
June 30, 2010**



**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended June 30, 2010  
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**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Introduction and Independent Citizens' Oversight Committee Member Listing  
June 30, 2010**

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The San Diego Unified School District (the "District") began operations in 1854 under the laws of the State of California. The San Diego Unified School District serves nearly 135,000 students in pre-school through grade 12. The District's educational facilities include 118 elementary schools, 24 middle schools, 29 high schools, 35 charter schools, and 15 atypical or alternative schools.

In November 2008, the voters of San Diego County approved by more than the required 55% favorable vote, Proposition S, authorizing the issuance and sale of general obligation bonds, not to exceed \$2,100,000,000. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

The Proposition 39 bonds were issued by the District, through the County of San Diego. On May 7, 2009, Election of 2008, Series A of the Proposition S bond authorization was issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$131,157,581 with yields to maturity of 2.52% to 6.19% and maturing through July 1, 2033. On May 7, 2009, Election of 2008, Series B of the Proposition S bond authorization was issued, which consisted of tax credit bonds with an initial par amount of \$38,840,000, a tax credit rate of 7.87%, and maturing through March 15, 2023. As of June 30, 2010, the principal balance including outstanding, including accreted interest on the Election of 2008, Series A and B bonds was \$173,992,580.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Proposition S including formation, composition and purpose of the Independent Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The Independent Citizens' Oversight Committee had the following members as of June 30, 2010, all of whom were appointed by the District's Board of Education with two year terms:

<u>Name</u>	<u>Representation</u>	<u>Education Code Section</u>
Mr. Gregg Cantor	At Large	15282(a)
Ms. Pat Hom	Parent of Child Enrolled in District and Active in a Parent-Teacher Organization	15282(a)(5)
Mr. John Gordon	At Large	15282(a)
Mr. Glenn Hillegas	At Large	15282(a)
Mr. Gil Johnson	Active in a Business Organization	15282(a)(1)
Mr. Daniel Morales	At Large	15282(a)
Mr. Kevin Alvin	Parent of Child Enrolled in District	15282(a)(4)
Mr. Leonard Pinson	At Large	15282(a)
Mr. Matt Spathas	Active in a Senior Citizens' Organization	15282(a)(2)
Ms. Deanna Spehn	Active in a Bona Fide Taxpayers' Organization	15282(a)(3)
Mr. John W. Stump	At Large	15282(a)

Governing Board Members and  
Proposition S Independent Citizens' Oversight Committee of  
San Diego Unified School District  
San Diego, California

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of the Proposition S Bond Building Fund of San Diego Unified School District (the "District") as of June 30, 2010, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2010. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements present only the individual Proposition S Bond Building Fund, consisting of the net construction proceeds of Proposition S general obligation bonds as issued by the District, through the County of San Diego, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Proposition S Bond Building Fund of San Diego Unified School District as of June 30, 2010, and the results of its operations for the fiscal year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2011 on our consideration of San Diego Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated January 21, 2011 on our consideration of San Diego Unified School District's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Proposition S Bond Building Fund for the fiscal year ended June 30, 2010 and should be considered in assessing the results of our financial audit.

*Christie White Accountancy Corporation*

San Diego, California  
January 21, 2011

## *Financial Section*

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**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Balance Sheet  
June 30, 2010**

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**ASSETS**

Cash in county treasury (Note 2)	\$	68,029,954
Accounts receivable (Note 3)		161,340
Due from other funds (Note 6)		3,480,580
Prepaid expenditures		1,030
Total assets	\$	<u>71,672,904</u>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Accounts payable	\$	7,869,100
Due to other funds (Note 6)		3,137,182
Total liabilities		<u>11,006,282</u>

**FUND BALANCE**

Unreserved		60,666,622
Total liabilities and fund balance	\$	<u>71,672,904</u>

The accompanying notes to financial statements are an integral part of this statement.

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Fiscal Year Ended June 30, 2010**

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<b>REVENUES</b>	
Interest income (Note 2)	\$ 1,269,387
Other local income	34,174
Total revenues	<u>1,303,561</u>
 <b>EXPENDITURES</b>	
Facilities acquisition and construction (Notes 7, 8 and 9)	<u>92,789,241</u>
Total expenditures	<u>92,789,241</u>
 Net Change in Fund Balance	 (91,485,680)
 Fund Balance, July 1, 2009	 <u>152,152,302</u>
 Fund Balance, June 30, 2010	 <u><u>\$ 60,666,622</u></u>

The accompanying notes to financial statements are an integral part of this statement.



**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The San Diego Unified School District (the “District”) began operations in 1854 under the laws of the State of California. The San Diego Unified School District serves nearly 135,000 students in pre-school through grade 12. The District’s educational facilities include 118 elementary schools, 24 middle schools, 29 high schools, 35 charter schools, and 15 atypical or alternative schools.

On November 4, 2008 the District voters authorized \$2.1 billion in general obligation bonds (Proposition S) to improve every neighborhood school by repairing outdated student restrooms, deteriorated plumbing and roofs, upgrading career/vocational classrooms and labs, providing up-to-date classroom technology, improving school safety/security, replacing dilapidated portable classrooms, upgrading fire alarms, and removing hazardous substances.

An oversight committee to the District’s Governing Board and Superintendent, called the Independent Citizens Oversight Committee (ICOC), was established pursuant to the requirements of state law and the provisions of the Proposition S bond. The ICOC is required by state law to actively review and report on the proper expenditure of taxpayers’ money for school construction. The ICOC provides oversight and advises the public whether the District is spending the Proposition S Bond funds for school capital improvements within the scope of projects outlined in the Proposition S Bond project list. In fulfilling its duties, the ICOC reviews, among other things, the District’s annual performance and financial audits of Proposition S activity.

The statements presented are for the individual Proposition S Bond Building Fund of the District, consisting of the net construction proceeds of Election of 2008, Series A and B general obligation bonds as issued by the District, through the County of San Diego, and are not intended to be a complete presentation of the District’s financial position or results of operations. There are no related parties or component units included in this financial statement presentation.

B. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education’s *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)**

**G. Budgets and Budgetary Accounting**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**NOTE 2 – CASH AND INVESTMENTS**

**Summary of Cash and Investments**

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as cash in county treasury for \$68,029,954.

**Policies and Practices**

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

*Cash in County Treasury* – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2010**

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**NOTE 2 – CASH AND INVESTMENTS (continued)**

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the San Diego County Investment Pool with a fair value of approximately \$68,428,746 and an amortized book value of \$68,029,954. The weighted average maturity for this pool as of June 30, 2010 was 425 days. The yield to maturity on the investment with the San Diego County Investment Pool was 1.14% as of June 30, 2010, and was 1.18% on an annualized basis for the fiscal year ended June 30, 2010.

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 2 – CASH AND INVESTMENTS (continued)**

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The San Diego County Investment Pool is rated AAf/S1 by Standard and Poor's.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable amounting to \$161,340 as of June 30, 2010 consists primarily of interest earned on the District's investment in the County Treasury.

**NOTE 4 – CONSTRUCTION COMMITMENTS**

The Proposition S Bond Building Fund had construction commitments of \$17.6 million as of June 30, 2010.

**NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS**

As of June 30, 2010, the principal balance outstanding on the District's Proposition S general obligation bonds, including accreted interest to date is:

<u>Series</u>	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2009</u>	<u>Current Year Additions *</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2010</u>
Election of 2008, Series A	5/7/2009	2.52% - 6.19%	7/1/2033	\$ 131,157,581	\$ 131,157,581	\$ 3,994,999	\$ -	\$ 135,152,580
Election of 2008, Series B	5/7/2009	7.87%	7/1/2023	38,840,000	38,840,000	-	-	38,840,000
			Total	\$ 169,997,581	\$ 169,997,581	\$ 3,994,999	\$ -	\$ 173,992,580

\* Additions to general obligation bonds are to recognize current period accreted interest on the capital appreciation bonds

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS (continued)**

Election of 2008, Series A

On May 7, 2009, Series A bonds of the Proposition S bond authorization were issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$131,157,581 with stated interest rates of 2.52% to 6.19% and maturing through July 1, 2033.

The annual requirements to amortize Series A Proposition S general obligation bonds payable outstanding as of June 30, 2010, are as follows:

Election of 2008, Series A

Year Ending June 30,	Principal *	Current Interest Component	Total
2011	\$ -	\$ -	\$ -
2012	1,150,555	94,446	1,245,001
2013	1,336,515	163,485	1,500,000
2014	1,305,735	234,265	1,540,000
2015	1,085,319	264,681	1,350,000
2016-2020	7,600,493	12,094,307	19,694,800
2021-2025	10,908,134	55,665,866	66,574,000
2026-2030	32,384,879	122,149,121	154,534,000
2031-2033	75,385,951	83,328,749	158,714,700
Total	<u>\$ 131,157,581</u>	<u>\$ 273,994,920</u>	<u>\$ 405,152,501</u>

\* Does not include \$3,994,999 in accreted interest on the capital appreciation bonds

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS (continued)**

Election of 2008, Series B

On May 7, 2009, Series B bonds of the Proposition S bond authorization were issued, which consisted of tax credit bonds with an initial par amount of \$38,840,000 with a tax credit rate of 7.87% and maturing through March 15, 2023.

The annual requirements to amortize Series B Proposition S general obligation bonds payable outstanding as of June 30, 2010, are as follows:

Election of 2008, Series B			
Year Ending June 30,	Principal	Tax Credit Amount	Total
2011	\$ -	\$ 3,056,708	\$ 3,056,708
2012	-	3,056,708	3,056,708
2013	-	3,056,708	3,056,708
2014	-	3,056,708	3,056,708
2015	-	3,056,708	3,056,708
2016-2020	14,340,000	15,283,540	29,623,540
2021-2023	24,500,000	8,405,947	32,905,947
Total	<u>\$ 38,840,000</u>	<u>\$ 38,973,027</u>	<u>\$ 77,813,027</u>

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 6 – INTERFUND ACTIVITIES**

Interfund activity is reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

**Due From/Due To Other Funds**

Interfund receivable and payable balances as of June 30, 2010 are as follows:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>		<u>Total</u>
	<u>Proposition S Building Fund</u>	<u>Other Governmental Funds</u>	
Proposition S Building Fund	\$ -	\$ 3,137,182	\$ 3,137,182
Other Governmental Funds	3,480,580	-	3,480,580
Total	<u>\$ 3,480,580</u>	<u>\$ 3,137,182</u>	<u>\$ 6,617,762</u>
Prop S Building Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.			\$ 2,008,300
Prop S Building Fund due to County School Facilities Fund for expenditure transfers.			1,124,378
Prop S Building Fund due to Cafeteria Fund for incorrect posting of expenses from the Communications Department.			274
Prop S Building Fund due to Developer Fees Capital Facilities Fund for reimbursement of expenses.			4,230
General Fund due to Prop S Building Fund for reimbursement of expenses.			677,528
County School Facilities Fund due to Prop S Building Fund for reimbursement of expenses.			114,471
Property Management Fund due to Prop S Building Fund for reimbursement of salary expenses.			1,537
Prop S Matching Fund due to Prop S Building Fund for job cost expenses.			2,686,320
Developer Fees Capital Facilities Fund due to Prop S Building Fund for reimbursement of expenses.			724
Total			<u>\$ 6,617,762</u>



**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 7 – PROPOSITION 5 EXPENDITURES BY MAJOR OBJECT**

The following table presents the expenditure amounts by major object for the fiscal year ended June 30, 2010:

<b><u>Expenditures by Object</u></b>	<b><u>Amount</u></b>	<b><u>Percent</u></b>
Capital outlay	\$ 69,435,657	74.8%
Services and other operating	15,671,904	16.9%
Classified salaries	3,984,827	4.3%
Books and supplies	2,189,070	2.4%
Employee benefits	1,507,783	1.6%
Total	<u>\$ 92,789,241</u>	<u>100.0%</u>

**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 8 – PROPOSITION 5 EXPENDITURES BY PROJECT**

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2010:

<u>School Site</u>	<u>Amount</u>	<u>Percent</u>
Hoover High School	\$ 6,884,385	7.4%
San Diego High School	5,366,118	5.8%
Point Loma High School	3,815,144	4.1%
Morse High School	2,715,621	2.9%
Kroc Middle School	1,942,987	2.1%
Garfield High School	1,628,430	1.8%
Clark Middle School	1,387,082	1.5%
Madison High School	1,352,588	1.5%
Clairemont High School	1,320,644	1.4%
Scripps Elementary School	1,291,981	1.4%
Serra High School	1,194,356	1.3%
Mira Mesa High School	1,145,874	1.2%
Knox Elementary School	1,078,131	1.2%
Wangenheim Middle School	919,059	1.0%
Patrick Henry High School	900,995	1.0%
North Park Elementary School	899,361	1.0%
Lincoln High School	890,689	1.0%
Scripps Ranch High School	852,292	0.9%
Challenger Middle School	799,923	0.9%
Roosevelt Middle School	785,588	0.8%
Bell Middle School	737,040	0.8%
Kearny High School	731,901	0.8%
Encanto Elementary School	728,126	0.8%
Crawford High School	706,417	0.8%
Mission Bay High School	677,234	0.7%
Standley Middle School	646,596	0.7%
Pacific Beach Middle School	644,996	0.7%
University City High School	637,048	0.7%
Dana Middle School	628,309	0.7%
Muirlands Middle School	578,055	0.6%

**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 8 – PROPOSITION 5 EXPENDITURES BY PROJECT (continued)**

<u>School Site</u>	<u>Amount</u>	<u>Percent</u>
Chollas/Mead Elementary School	533,523	0.6%
Scripps Mesa Conference Center	532,465	0.6%
School of Creative Performing Arts (SCPA)	530,658	0.6%
Wilson Middle School	522,702	0.6%
Zamorano Elementary School	522,010	0.6%
Horton Elementary School	512,896	0.6%
Lewis Middle School	504,987	0.5%
La Jolla High School	489,687	0.5%
De Portola Middle School	476,723	0.5%
Pershing Middle School	470,945	0.5%
Marston Middle School	463,382	0.5%
Emerson Elementary School	433,845	0.5%
Montgomery Middle School	415,949	0.4%
Farb Middle School	385,611	0.4%
Grant Elementary School	377,293	0.4%
Mann Middle School	368,814	0.4%
Taft Middle School	359,758	0.4%
Gompers Charter School	356,302	0.4%
Balboa Elementary School	353,607	0.4%
Language Academy	353,342	0.4%
Porter Elementary School	348,605	0.4%
Hamilton Elementary School	344,880	0.4%
Oak Park Elementary School	340,536	0.4%
Marshall Middle School	311,498	0.3%
Marshall Elementary School	308,582	0.3%
Euclid Elementary School	308,356	0.3%
Wiggins Elementary School	299,073	0.3%
Memorial Middle School	287,960	0.3%
King/Chavez Charter School	287,597	0.3%
Longfellow Elementary School	286,764	0.3%
Baker Elementary School	282,105	0.3%
Walker Elementary School	275,643	0.3%
Rosa Parks Elementary School	271,432	0.3%
Ibarra Elementary School	264,310	0.3%
Lindbergh Schweitzer Elementary School	258,456	0.3%
Edison Elementary School	257,940	0.3%
Johnson Elementary School	252,744	0.3%
Bethune Elementary School	247,666	0.3%

**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 8 – PROPOSITION 5 EXPENDITURES BY PROJECT (continued)**

<u>School Site</u>	<u>Amount</u>	<u>Percent</u>
Cherokee Point Elementary School	244,662	0.3%
Golden Hill Elementary School	241,399	0.3%
Perkins Elementary School	240,483	0.3%
Audubon Elementary School	234,849	0.3%
Chavez Elementary School	233,788	0.3%
Central Elementary School	226,267	0.2%
Hawthorne Elementary School	224,730	0.2%
Carver Elementary School	220,823	0.2%
Mason Elementary School	218,609	0.2%
Whitman Elementary School	218,484	0.2%
Carson Elementary School	214,175	0.2%
Penn Elementary School	212,761	0.2%
Boone Elementary School	210,588	0.2%
Logan Elementary School	208,144	0.2%
Ross Elementary School	207,724	0.2%
Spreckels Elementary School	207,041	0.2%
O'Farrell Community Middle School	203,220	0.2%
Linda Vista Elementary School	201,590	0.2%
Lafayette Elementary School	201,185	0.2%
Miramar Ranch Elementary School	199,328	0.2%
Dingeman Elementary School	197,886	0.2%
Hancock Elementary School	191,734	0.2%
Fulton Elementary School	191,509	0.2%
Doyle Elementary School	191,180	0.2%
Kimbrough Elementary School	188,878	0.2%
Webster Elementary School	187,519	0.2%
Field Elementary School	187,193	0.2%
Holmes Elementary School	186,838	0.2%
Paradise Hills Elementary School	183,705	0.2%
Whittier Elementary School	183,229	0.2%
Jerabek Elementary School	182,475	0.2%
Sandburg Elementary School	180,816	0.2%
Lee Elementary School	178,253	0.2%
Tierrasanta Elementary School	165,866	0.2%
Normal Heights Elementary School	165,159	0.2%
La Jolla Elementary School	160,709	0.2%
Miller Elementary School	159,457	0.2%
Adams Elementary School	158,353	0.2%
Fay Elementary School	156,963	0.2%

**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 8 – PROPOSITION 5 EXPENDITURES BY PROJECT (continued)**

<u>School Site</u>	<u>Amount</u>	<u>Percent</u>
Joyner Elementary School	155,293	0.2%
Marvin Elementary School	155,049	0.2%
Sequoia Elementary School	154,912	0.2%
Rodriguez Elementary School	152,122	0.2%
Keiller Charter School	151,408	0.2%
Hickman Elementary School	150,057	0.2%
Sunset View Elementary School	147,777	0.2%
Nye Elementary School	147,093	0.2%
Kumeyaay Elementary School	145,692	0.2%
Bay Park Elementary School	145,272	0.2%
Clay Elementary School	144,781	0.2%
Curie Elementary School	143,202	0.2%
Sessions Elementary School	140,618	0.2%
Perry Elementary School	138,944	0.1%
Bayview Terrace Elementary School	137,098	0.1%
Silver Gate Elementary School	134,650	0.1%
Florence Elementary School	134,537	0.1%
Ericson Elementary School	134,268	0.1%
Chesterton Elementary School	133,685	0.1%
Brooklyn Child Development Center School	130,927	0.1%
Gage Elementary School	128,662	0.1%
Riley K-9 Special Education School	126,312	0.1%
Jones Elementary School	125,944	0.1%
Hage Elementary School	123,844	0.1%
Dewey Elementary School	122,687	0.1%
Hearst Elementary School	122,050	0.1%
Fletcher Elementary School	121,625	0.1%
Valencia Park Elementary School	121,423	0.1%
Birney Elementary School	120,264	0.1%
Benchley/Weinberger Elementary School	119,252	0.1%
Loma Portal Elementary School	119,225	0.1%
Freese Elementary School	117,686	0.1%
Alcott Elementary School	116,249	0.1%
Dailard Elementary School	115,023	0.1%
Sherman Elementary School	113,041	0.1%
Anderson Elementary School	110,646	0.1%
Angier Elementary School	108,598	0.1%
Vista Grande Elementary School	106,880	0.1%
Washington Elementary School	106,845	0.1%
Bird Rock Elementary School	104,993	0.1%
Torrey Pines Elementary School	104,570	0.1%
Garfield Elementary School	104,383	0.1%

**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 8 – PROPOSITION 5 EXPENDITURES BY PROJECT (continued)**

<u>School Site</u>	<u>Amount</u>	<u>Percent</u>
Burbank Elementary School	103,520	0.1%
Barnard Elementary School	103,207	0.1%
McKinley Elementary School	99,301	0.1%
Darnall Charter School	98,582	0.1%
Wegeforth Elementary School	98,408	0.1%
Green Elementary School	90,274	0.1%
Ocean Beach Elementary School	90,017	0.1%
Hardy Elementary School	88,955	0.1%
Foster Elementary School	88,494	0.1%
Pacific Beach Elementary School	88,234	0.1%
Jefferson Elementary School	88,045	0.1%
Cleveland Elementary School	85,938	0.1%
Franklin Elementary School	77,671	0.1%
Cubberly Elementary School	76,369	0.1%
Rowan Elementary School	76,057	0.1%
Juarez Elementary School	74,618	0.1%
Crown Point Elementary School	71,068	0.1%
Cadman Elementary School	68,436	0.1%
Cabrillo Elementary School	61,385	0.1%
Toler Elementary School	58,232	0.1%
Jackson Preschool	56,518	0.1%
Correia Middle School	48,806	0.1%
Twain High School	47,094	0.1%
Harriet Tubman Charter School	45,969	0.0%
Rolando Park Elementary School	41,461	0.0%
MacDowell Middle School	19,920	0.0%
Pacific American Academy	19,690	0.0%
Downtown Library	11,175	0.0%
Alternative Learning for Behavior and Attitude (ALBA) High School	8,110	0.0%
Subtotal - school site expenditures	<u>73,276,329</u>	<u>79.0%</u>
<b>Program Expenditures:</b>		
Facilities planning and construction	18,545,953	20.0%
Strategic sourcing department	392,466	0.4%
Utilities management	179,367	0.2%
Legal services	124,376	0.1%
Information and technology support services	84,466	0.1%
Distribution services section	67,195	0.1%
Educational technology	59,934	0.1%
Communications	57,968	0.1%
Mail services	1,187	0.0%
Subtotal - program expenditures	<u>19,512,912</u>	<u>21.0%</u>
Total	<u>\$ 92,789,241</u>	<u>100.0%</u>

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2010**

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**NOTE 9 – PROPOSITION S EXPENDITURES BY CATEGORY**

The following table presents the expenditure amounts by category for the fiscal year ended June 30, 2010:

<u>Category</u>	<u>Amount</u>	<u>Percent</u>
High schools	\$ 32,251,588	34.8%
Elementary schools	26,288,857	28.3%
Program expenditures	19,512,912	21.0%
Middle schools	12,118,330	13.1%
Other District sites	2,617,554	2.8%
Total	<u>\$ 92,789,241</u>	<u>100.0%</u>

**NOTE 10 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The District's Proposition S Bond Building Fund had expenditures over appropriations in employee benefits during the fiscal year ended June 30, 2010 in the amount of \$88,245.

**NOTE 11 – SUBSEQUENT EVENT**

On August 5, 2010, the District issued \$199,999,783 of general obligation bonds (the bonds), consisting of \$163,869,783 in Election of 2008, Series C general obligation bonds, \$16,130,000 in Election of 2008, Series D-1 qualified school construction bonds, and \$20,000,000 in Election of 2008, Series D-2 qualified school construction bonds. The bonds were sold by the District, through the County of San Diego, and yield rates of interest ranging from 5.689% to 6.80%. The Series C bonds mature through July 1, 2050, and the Series D-1 and Series D-2 bonds mature through July 1, 2027. The bonds were sold to construct and improve various school facilities of the District under Proposition S.

## *Supplementary Information Section*

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**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Budgetary Comparison Schedule – Proposition S Bond Building Fund  
For the Fiscal Year Ended June 30, 2010**

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	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
<b>REVENUES</b>				
Other local	\$ 1,462,500	\$ 1,495,612	\$ 1,303,561	\$ (192,051)
Total revenues	<u>1,462,500</u>	<u>1,495,612</u>	<u>1,303,561</u>	<u>(192,051)</u>
<b>EXPENDITURES</b>				
Classified salaries	4,344,320	3,984,827	3,984,827	-
Employee benefits	1,590,728	1,419,538	1,507,783	(88,245)
Books and supplies	642,600	2,772,009	2,189,070	582,939
Services and other operating expenditures	20,580,024	19,058,886	15,671,904	3,386,982
Capital outlay	138,505,000	101,667,351	69,435,657	32,231,694
Total expenditures	<u>165,662,672</u>	<u>128,902,611</u>	<u>92,789,241</u>	<u>36,113,370</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(164,200,172)</u>	<u>(127,406,999)</u>	<u>(91,485,680)</u>	<u>35,921,319</u>
Fund balances, July 1, 2009	<u>152,152,302</u>	<u>152,152,302</u>	<u>152,152,302</u>	<u>-</u>
Fund balances, June 30, 2010	<u>\$ (12,047,870)</u>	<u>\$ 24,745,303</u>	<u>\$ 60,666,622</u>	<u>\$ 35,921,319</u>

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2010**

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*There were no adjustments between the Annual Financial and Budget Report and the Audited Financial Statements in 2009-10.*

## *Other Independent Auditor's Report*

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Governing Board Members and  
Proposition S Independent Citizens' Oversight Committee of  
San Diego Unified School District  
San Diego, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

We have audited the financial statements of the Proposition S Bond Building Fund of San Diego Unified School District as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated January 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered San Diego Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the San Diego Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Diego Unified School District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of audit findings and management's responses as #2010-1 and #2010-2 Financial Audit Findings that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Proposition S Bond Building Fund of San Diego Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

San Diego Unified School District management's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and management's responses. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the District's Governing Board, the Proposition S Independent Citizens' Oversight Committee, management, others within the entity, and the taxpayers of San Diego Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

*Christy White Accountancy Corporation*

San Diego, California  
January 21, 2011

*Audit Findings and  
Management's Responses Section*

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**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Schedule of Audit Findings and Management's Responses  
For the Fiscal Year Ended June 30, 2010**

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**#2010-1 Financial Audit Finding: Post Award Contracts Payment Process**

**Audit Finding:** We noted certain internal control deficiencies as well as opportunities for improving the process for executing vendor payments in the District's post-award contracts area. The internal control deficiencies and opportunities for process improvement differ according to paying construction vendors as compared to paying professional services vendors, such as architecture and engineering firms.

**Construction Vendors Payment Process:**

- The construction vendors payment process presents challenges due to the requirement to perform data entry in both the PeopleSoft financial system as well as the CM12/Primavera contract management system. Individual "payment lines" must be added in each system to pay a vendor based on invoices received following the issuance of a notice to proceed (NTP), and following the approval of change orders. The volume of payment lines to be added increases due to the existence of multiple NTPs under one purchase order, such as in the case of i21 project indefinite delivery, indefinite quantity (IDIQ) contracts, which entail four separate purchase orders, and 60 to 70 NTPs per purchase order.
- Despite the high volume of required data entry, our testing showed that for five haphazardly selected construction payment transactions in the 2009-10 fiscal year, the average days for payment processing was 4.2 days from date of payment application to date of payment. This level of performance was sustained despite having one employee responsible for the post-award payment data processing. Another employee was recently added to the post-awards construction contracts payment area to assist with the data processing function.

**Professional Services Vendors Payment Process:**

- In contrast to the construction vendors payment issuance process, the professional services payment issuance process is slowed by the need for multiple project manager (PM) approvals on each vendor invoice. Upon receipt of an invoice, the employee responsible for processing post-awards payments to professional services vendors routes the invoice to a PM for an initial review. If the invoice is approved on initial review, its data is entered into the CM12/Primavera contract management system. The invoice is then routed for formal signature approval by the PM and the PM's supervisor. The approved invoice is then entered into PeopleSoft and sent to accounts payable department for warrant creation and distribution. Our testing of 217 payments made in July 2010 to December 2010 indicated an average time to payment of 59 days. Good internal control dictates processing vendor payments within 30 days.

**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Schedule of Audit Findings and Management's Responses  
For the Fiscal Year Ended June 30, 2010**

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**#2010-1 Financial Audit Finding: Post Award Contracts Payment Process (continued)**

**Professional Services Vendors Payment Process (continued):**

- In response to the delays in payment noted previously, the District has hired two additional post-award contracts employees to assist in processing payments to professional services vendors. The backlog of 300 professional services invoices reached in the summer of 2010 has subsided to a backlog of 100 professional services invoices. Post-awards contracts personnel estimate that 15-20 invoices can be processed per employee per day. To streamline the PM approval process, there is a proposed plan to convert the paper-based approval system to an electronic invoice approval system using Sharepoint.

**Audit Recommendations:** For the construction contracts side, the District should analyze whether line item data entry is truly necessary for both the CM12/Primavera and PeopleSoft systems. Redundant or unnecessary data entry steps should be removed to facilitate the payment process, while preserving good internal control with respect to proper approvals and separation of duties. Redundant data entry may also be minimized through an initiative to allow a single point of data entry to update both the CM12/Primavera and PeopleSoft systems.

For professional services contracts, the District should seek to automate the invoice approval process in order to provide for better tracking and efficiency of invoice approvals by PMs. Evidence of approval by all required parties should be maintained for audit and vendor payment purposes. Given the complexity of the two systems involved, and the multi-department nature of the payment process (involving facilities, strategic sourcing/contracts, and finance departments), the District may be advised to enlist the assistance of a third-party information technology consultant to assist in the design and implementation of further system improvements.

**Management's Response:** The District concurs. Facilities Planning and Construction (FPC) has been working diligently to improve our payment processes from inception to payment. The recent changes to our processes are yielding positive results in cutting the professional services payment time to less than 30 days. Further measures we have taken include (as indicated on the next page):



**PROPOSITION 5 BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Schedule of Audit Findings and Management's Responses  
For the Fiscal Year Ended June 30, 2010**

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**#2010-1 Financial Audit Finding: Post Award Contracts Payment Process (continued)**

**Management's Response (continued):**

- Hiring additional staff to address the present processing delays
- Forming a task force consisting of personnel from FPC, CFO, Strategic Sourcing and IT and holding bi-weekly meetings dedicated to the elimination of unnecessary redundancies and improving overall efficiency in the District's work authorization, invoicing and payment process
- Streamlining the payment approval process by using more advanced electronic approval and tracking
- Eliminating unnecessary redundant payment process steps
- Improving the software and systems to reduce dual data entry
  - Expanding the use of SharePoint to include reporting, storing and sharing of contract data
  - Targeting the use of software consultant services:
    - Improving the integration of data between Primavera and PeopleSoft applications to reduce double-entry
    - Implementation of PeopleSoft Project Costing module to better track project budgets and expenditures

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Schedule of Audit Findings and Management's Responses  
For the Fiscal Year Ended June 30, 2010**

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**#2010-2 Financial Audit Finding: Internal Audit and Finance Department Involvement**

**Audit Finding:** We noted that the District's internal audit department is not currently providing regular internal audit services to the facilities/construction area. The District's interim internal audit director indicates that the internal audit department is capable to perform an internal audit of facilities/construction but is currently performing work elsewhere, and to work on facilities/construction would entail removing resources from other internal audit projects.

The District's finance department currently provides cash flow, budget monitoring, and vendor payment (through accounts payable) services to the facilities/construction area. The finance department does not currently have access to the CM12/Primavera contract management system. Although representatives of the finance department attend facilities/construction meetings on a regular basis, the finance department appears to have a relatively limited involvement in managing the facilities activities of the District.

**Audit Recommendations:** To enhance oversight over the Proposition S program, the District should consider hiring an internal auditor dedicated to the Proposition S program, funded all or in part from Proposition S funds.

The finance department (in particular, budget analysts and managers in the finance department assigned to the facilities/construction area) should be provided with training and read-only access on the CM12/Primavera construction management system in order to improve their access to facilities information. The District should revisit the finance department's authority over facilities department decision making, particularly in matters pertaining to sources and expenditures of Proposition S funds.

**Management's Response:** Facilities Planning and Construction (FPC) and the Office of Audits and Investigations will develop a plan to provide adequate internal audit of Proposition S under the governance of the Office of Audits and Investigations. FPC intends to provide funds to the Office of Audits and Investigations to conduct these audits. The funds could be used to help fund an existing District employee or to hire a consultant to conduct the audits. In either case, the employee would be committed on an as needed basis to Proposition S based on the funding.

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Schedule of Audit Findings and Management's Responses  
For the Fiscal Year Ended June 30, 2010**

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**#2010-2 Financial Audit Finding: Internal Audit and Finance Department Involvement (continued)**

**Management's Response (continued):**

District agrees that FPC should provide training and read-only access to Primavera CM 12 to Finance staff as needed to perform their duties and will implement the recommendation. The District will also implement a PeopleSoft Project Costing Module that will provide integration between the CM12/P6 and the current PeopleSoft General Ledger Module.

District agrees that with the recommendation that the Finance Department and FPC should work closely. It should be noted that no Prop. S expenditures are made without authorization by the Finance Department. The Finance Department also manages the sales of Prop. S bonds concerning the amount, timing and sales of Prop. S bonds.

Over the last year FPC and Finance have improved collaborative efforts. All Prop. S expenditures are authorized by the budget analyst at various points throughout the project life-cycle. The program budget and each project's budget was established in July 2008 and then is prepared by Program Controls and then given to the budget analyst. The budget analyst has each project's budget and the scope of the project. The budget analyst approves the funding for Prop. S contracts at board award. Upon approval of the Notice to Proceed the budget analyst funds each project in PeopleSoft so that the purchase orders can be created and payment made to vendors. The budget analyst approves the budget for change orders to contracts.

The District anticipates some restructuring of the Finance department that supports Prop S that will result in increased participation of the Budget Analyst in the fiscal review and monitoring process and in enhanced oversight by the CFO.

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2010**

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>#2009-1 Financial Audit Finding: Expenditure Internal Controls</i>	<p>Certain internal control deficiencies were noted during our test of expenditures charged to the Proposition S Bond Program for the fiscal year ended June 30, 2009.</p> <p><b><u>Approval of Expenditures:</u></b> We found that 1 of 70 expenditures tested was missing a signature from the Director of Construction Management.</p> <p><b><u>Coding of Expenditures to Proposition S Projects:</u></b> Five out of 70 expenditures tested were coded to an incorrect project as determined by matching the coding to the underlying documentation. However, the expenditures were permissible for payment out of Proposition S.</p>	<p><b><u>Approval of Expenditures:</u></b> We recommend that all expenditures are properly signed by the appropriate parties, to provide evidence that expenditures are properly approved.</p> <p><b><u>Coding of Expenditures:</u></b> We recommend that expenditures are coded to the proper school or District sites, in accordance with the expenditure supporting documentation such as payment applications or invoices.</p>	Partially implemented: see finding #2010-1

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2010**

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Current Status</b>
<p><i>#2009-1 Financial Audit Finding: Expenditure Internal Controls (continued)</i></p>	<p><b>Use of Purchase Requisitions and Orders:</b> We found that purchase requisitions and purchase orders were not used for the Proposition S program in the fiscal year ended June 30, 2009. The District began using purchase requisitions and purchase orders in the 2009-10 fiscal year.</p> <p>Currently, payment applications and supporting documentation (which includes cost distribution detail) are provided by the Facilities department to the Accounts Payable department. The current system allows for a three way match between purchase order, invoice, and receipt (PeopleSoft receiving report), which Accounts Payable verifies in order to pay vendors. The supporting documentation is scanned into PeopleSoft, and hard copies of payment applications are retained for 10 years (1 ½ years at SDUSD District office, and the remainder off-site).</p>	<p><b>Use of Purchase Orders:</b> We recommend that the District utilizes purchase requisitions and purchase orders to enhance internal controls over procurement and properly budget and encumber funds for Proposition S projects.</p>	<p>Partially implemented: see finding #2010-1</p>

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2010**

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Current Status</b>
<p><i>#2009-1 Financial Audit Finding: Expenditure Internal Controls (continued)</i></p>	<p><b><u>Timing of Expenditures:</u></b> We questioned the timing (not nature) of \$3.2 million in expenditures charged to the Proposition S Bond Fund for work performed (Fast Start Projects) before the passage of Proposition S in November 2008. Based on our testing of expenditure transfers, the expenditures transferred appeared to be permissible per the Proposition S ballot language, but we question the date of the expenditures relative to the voter approval of Proposition S in November 2008.</p> <p><b><u>Payroll Charges:</u></b> In testing of payroll expenditures, we tested all payroll charges for 14 employees charged to Proposition S (out of a total of 45 employees charged in 2008-09) by examining payroll expenditures for these employees for the entire fiscal year 2008-09. We found two instances where a sampled employee's compensation was not correctly allocated in the payroll system according to the Proposition S payroll allocation report provided to us. We tested the allocation report by verifying assignments to personnel records and interviews with staff about job duties and assignments. In all cases, we found the payroll charges to Proposition S were permissible facilities related, and not for teacher or administrator salaries.</p>	<p><b><u>Date of Expenditures Charged:</u></b> We recommend that the District determines the permissibility of charging Proposition S with expenditures incurred prior to the election date of November 2008.</p> <p><b><u>Payroll Cost Allocation:</u></b> We recommend that all employees' payroll allocations to Proposition S are consistent with payroll allocation plans.</p>	<p>Partially implemented: see finding #2010-1</p>

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2010**

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Current Status</b>
<p><i>#2009-2 Financial Audit Finding: Finance and Business Service Division Involvement in the Proposition S Bond Program</i></p>	<p>We found in our audit that the Facilities Planning and Construction department has substantial construction contract pre-award and post-award functions. Pre-award functions include bidding, contractor selection, and contract execution, whereas post-award functions involve setting up purchase requisitions and purchase orders, issuing notices to proceed, processing vendor payments, and processing change orders to contracts. The Finance and Business Service Division currently provides limited accounting, budgeting and accounts payable processing functions to the Proposition S Bond Program.</p> <p>Accounting services provided by the Finance and Business Service Division include accounting for bond proceeds and interest earned on cash invested in the County Treasury. Budgeting services involve a budget analyst adding budget to projects at the direction of Facilities Planning and Construction, in order to allow for the creation of purchase orders. Accounts payable services involve the final processing and warrant issuance to Proposition S vendors.</p>	<p>We believe that internal controls over financial aspects of the Proposition S Bond Program, including expenditure controls, will be strengthened by having post-award personnel responsible for the processing of purchase requisitions and purchase orders, as well as the final processing of payment applications and invoices, directly report to management in the District’s Finance and Business Services Division.</p>	<p>Partially implemented: see finding #2010-2</p>

**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2010**

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>#2009-3 Financial Audit Finding: Accounting for Bond Issuance Transaction</i>	<p>On May 7, 2009, the District recorded the proceeds of the Election of 2008 Series A and B bonds in the Proposition S subfund 21300. The bond proceeds were recorded net of issuance premium and costs of issuance. Proper accounting for the bond issuance transaction is to record the bond issuance at gross, including any premiums on issuance and costs of issuance. Guidance for this accounting treatment is set forth in the 2008 California School Accounting Manual (CSAM) at Procedure 705, as published by the California Department of Education.</p>	<p>We recommend that District implement a procedure to record future bond issuances at gross, in accordance with guidance at CSAM Procedure 705.</p>	<p>Implemented</p>



**PROPOSITION S BOND BUILDING FUND  
OF SAN DIEGO UNIFIED SCHOOL DISTRICT  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2010**

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<b>Original Finding No.</b>	<b>Finding</b>	<b>Recommendation</b>	<b>Current Status</b>
<i>#2009-4 Financial Audit Finding: District Fraud Hotline and Internal Audit</i>	<p>We noted during our audit inquiries that, although the District has a fraud hotline for the anonymous reporting of irregularities by employees and other applicable parties, the fraud hotline is not regularly publicized to employees and contractors in the Facilities Planning and Construction department. The District’s fraud hotline is advertised on the District’s web site, in the Departments area. Employees that we spoke with generally indicated to us they would prefer to report a potential problem to their immediate supervisor instead of using the hotline.</p> <p>Per our inquiry of the Office of Audits and Investigations, there were no significant issues reported related to Proposition S from the date of inception to present time. The Office of Audits and Investigations monitors the fraud hotline and will actively investigate any significant issues that are reported.</p>	<p><b>Use of Fraud Hotline:</b> We encourage the use of an anonymous means (such as a fraud hotline) for employees, contractors, or other applicable parties to voice concerns regarding potential fraud or abuse of funds. In order to maximize the effectiveness of the fraud hotline, it must be regularly publicized and individuals must be encouraged to use the fraud hotline.</p> <p><b>Internal Audit:</b> We believe that the District’s internal audit department should provide an ongoing internal audit of the Proposition S bond program, increasing the level of independent monitoring of the pre-award and post-award processes. Additional staff, possibly funded from Proposition S bond proceeds as per the District’s determination, should be added to the internal audit department, as necessary, in order to carry out this function.</p>	Partially implemented: see finding #2010-2