



Independent Citizens' Oversight Committee  
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February 14, 2011

Honorable Richard Barrera and Honorable Board of Education  
San Diego Unified School District  
4100 Normal Street, Room 2231  
San Diego, CA 92103

**Subject: Proposition S 2010 Annual Performance Audit and Financial Audit**

Dear Honorable President Barrera and Members of the Board of Education:

Proposition S was passed under the provisions of Proposition 39, which requires both an independent annual performance audit and financial audit. Proposition 39 provides for receipt and review of those audits by your Independent Citizens Oversight Committee (ICOC). This is the report of the review of the audits covering the period July 1, 2009 through June 30, 2010.

On February 7, 2011, the District's auditors, Christy White Accountancy Corporation, presented the final audits to the ICOC Audit subcommittee. The auditors did not identify any loss of public funds, misappropriations or defalcations. There were audit findings that identified opportunities for improvement. The auditors concluded that Prop. S complies with the requirements of Proposition 39 and District financial statements fairly represent the bond proceeds' financial position.

On February 10, 2011, the full ICOC received the audits, at a special meeting. A special meeting of the ICOC was required because these audits were prepared after the scheduled and outside the processes previously recommended by the ICOC, following last year's audits. Based on review and analysis of both audits, the ICOC makes the following recommendations:

- a) Future financial audits should not be limited to the "net construction proceeds" of the general obligation bonds issued by the District. Audits should include the costs of sale and issuing the bonds. The audit should cover the whole program. A net worth statement and a more detailed examination of interfund transfers should be provided.
- b) Future performance audits should include an analysis of the recurring cost and replacement plans maintaining or replacing the facilities and equipment purchased with bond financing. The purpose of the analysis is to assess the adequacy of these recurring funding plans and sources. The ICOC has raised concerns regarding the District's ability to maintain facilities and technology equipment funded by limited one time Bond financing. Additionally, the ICOC is concerned if 40-year bond financing is continued for equipment with a useful life of five years or less.
- c) The District should adopt the auditor's recommendation to engage an independent financial advisor to provide a second opinion on the expected financing costs of the Prop. S (Prop. S 2010 Performance Audit, page 20). An independent unbiased conflict free opinion should include a cost/benefit analysis of the proposed structuring of future bond issues based on the total long term costs to taxpayers and the limitations on total bonding capacity.
- d) The District should adopt the auditor's recommendation to engage an internal auditor for the Prop. S program, funded from Prop. S funds. (Prop. S 2010 Financial Audit, page 27; .2010 SDUSD Performance Audit, page 19).

On behalf of the members of the ICOC, we thank the Board for this opportunity to serve our community.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Gil Johnson".

Gil Johnson,  
Chair of the ICOC