

**PROPOSITION 5 BOND BUILDING FUND OF
SAN DIEGO UNIFIED SCHOOL DISTRICT**

FINANCIAL AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2011**



**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Table of Contents
June 30, 2011**

	<u>Page</u>
Introduction and Independent Citizens' Oversight Committee Member Listing	1
Independent Auditors' Report.....	3
FINANCIAL SECTION	
Balance Sheet.....	5
Statement of Revenues, Expenditures and Changes in Fund Balance	6
Notes to Financial Statements.....	7
SUPPLEMENTARY INFORMATION SECTION	
Budgetary Comparison Schedule – Proposition S Bond Building Fund.....	26
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	27
OTHER INDEPENDENT AUDITOR'S REPORT	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28
AUDIT FINDINGS AND MANAGEMENT'S RESPONSES SECTION	
Schedule of Audit Findings and Management's Responses.....	30
Summary Schedule of Prior Audit Findings.....	33

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Introduction and Independent Citizens' Oversight Committee Member Listing
June 30, 2011**

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 132,000 students in pre-school through grade 12. The District's educational facilities include 107 traditional elementary schools, 11 K-8 schools, 24 traditional middle schools, 28 high schools, 41 charter schools and 13 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.

On August 5, 2010, Election of 2008, Series C of the Proposition S bond authorization was issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$163,869,783 with yields to maturity of 6.10% to 6.80% and maturing through July 1, 2050. On August 5, 2010, Election of 2008, Series D-1 and D-2 of the Proposition S bond authorization was issued, which consisted of tax credit bonds with an initial par amount of \$16,130,000 and \$20,000,000, a tax credit rate of 5.26%, and maturing through July 1, 2027. As of June 30, 2011, the principal balance, including outstanding accreted interest, on the Election of 2008, Series A, B, C, D-1 and D-2 bonds was \$379,809,052.

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.

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

**Introduction and Independent Citizens' Oversight Committee Member Listing, continued
June 30, 2011**

The Independent Citizens' Oversight Committee had the following members as of June 30, 2011, 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. Jamie Barton	At Large	15282(a)
Mr. Vince Hall	Parent of Child Enrolled in District and Active in a Parent-Teacher Organization	15282(a)(5)
Mr. John Gordon	At Large	15282(a)
Mr. Gil Johnson	Active in a Business Organization	15282(a)(1)
Mr. Andrew Berg	Active in a Business Organization	15282(a)(1)
Mr. Douglas Gray	At Large	15282(a)
Ms. Kim Schoettle	Parent of Child Enrolled in District	15282(a)(4)
Mr. Leonard Pinson	At Large	15282(a)
Mr. Brian Pollard	Active in a Senior Citizens' Organization	15282(a)(2)
Ms. Deanna Spehn	Active in a Bona Fide Taxpayers' Organization	15282(a)(3)
Ms. Michelle Huffaker	At Large	15282(a)



INDEPENDENT AUDITORS' REPORT

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

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, 2011, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2011. 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 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, 2011, and the results of its operations for the fiscal year ended June 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

SAN DIEGO

RANCHO CUCAMONGA

2727 Camino Del Rio South • Suite 219 • San Diego, CA 92108 | 8686 Haven Avenue • Suite 250 • Rancho Cucamonga, CA 91730
tel. 619.270.8222 • www.cwacpa.com • fax. 619.260.9085

3

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 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 November 12, 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, 2011 and should be considered in assessing the results of our financial audit.

Chintalata Accountancy Corporation

San Diego, California
November 12, 2011

FINANCIAL SECTION

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2011**

ASSETS

Cash in county treasury (Note 2)	\$	172,999,029
Accounts receivable (Note 3)		271,129
Due from other funds (Note 6)		316,946
Total assets	\$	<u>173,587,104</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	22,385,346
Due to other funds (Note 6)		1,411,869
Total liabilities		<u>23,797,215</u>

FUND BALANCE

Restricted for Proposition S capital projects		149,789,889
Total liabilities and fund balance	\$	<u>173,587,104</u>

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

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2011**

REVENUES

Interest income (Note 2)	\$ 1,345,209
Other state revenue	9,166,684
Other local income	148,258
Total revenues	<u>10,660,151</u>

EXPENDITURES

Facilities acquisition and construction (Notes 7, 8 and 9)	123,686,589
Original issue discount (Notes 7, 8 and 9)	1,836,513
Total expenditures	<u>125,523,102</u>

Excess (deficiency) of revenues over (under) expenditures	<u>(114,862,951)</u>
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OTHER FINANCING SOURCES AND USES

Proceeds from long-term debt (Note 5)	<u>203,986,218</u>
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Total Other Financing Sources	<u>203,986,218</u>
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Net Change in Fund Balance	89,123,267
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Fund Balance, July 1, 2010	<u>60,666,622</u>
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Fund Balance, June 30, 2011	<u>\$ 149,789,889</u>
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The accompanying notes to financial statements are an integral part of this statement.

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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 132,000 students in pre-school through grade 12. The District’s educational facilities include 107 traditional elementary schools, 11 K-8 schools, 24 traditional middle schools, 28 high schools, 41 charter schools and 13 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, B, C, D-1 and D-2 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
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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 S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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, 2011 are classified in the accompanying financial statements as cash in county treasury for \$172,999,029.

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
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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 \$173,573,386 and an amortized book value of \$172,999,029. The weighted average maturity for this pool as of June 30, 2011 was 425 days.

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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 AAAf/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 \$271,129 as of June 30, 2011 consists of interest earned on the District's investment in the County Treasury.

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 4 – CONSTRUCTION COMMITMENTS

The Proposition S Bond Building Fund had construction commitments of \$42.4 million as of June 30, 2011.

Capital Projects		Remaining Construction Commitment
Project 1	Cherokee Pt ES: Air Conditioning Mechanical Systems Upgrade	\$ 262,638
Project 2	Clairemont HS: NATEF Auto Program Building	588,254
Project 3	Clairemont HS: Stadium ADA Improvements Phase 2	53,710
Project 4	Clairemont HS: Stadium ADA Improvements Phase 2	3,003,555
Project 5	Hoover HS: Green Construction Program Building	1,759,002
Project 6	Hoover HS: Sports Facilities Upgrade	9,338,800
Project 7	Ibarra ES: Air Conditioning Mechanical Systems Upgrade	79,309
Project 8	Jefferson ES: Joint Use and Building Improvements	2,094,435
Project 9	Language Academy: Teachers Lounge Upgrades	134,688
Project 10	Madison HS: Football Stadium Improvements	447,905
Project 11	Morse HS: Autobody Program Facility	1,307,349
Project 12	Morse HS: Child Development Program Building	2,731,035
Project 13	Morse HS: Culinary Arts Program New Facility	1,431,563
Project 14	Morse HS: Stadium Complex Upgrade	5,092,884
Project 15	Normal Heights ES HVAC	610,289
Project 16	Point Loma HS: Convert Wood Shop into Music Room	234,610
Project 17	Point Loma HS: Convert Wood Shop into Music Room	1,055,353
Project 18	Point Loma HS: Motion Picture Facility	235,559
Project 19	Point Loma HS: Motion Picture Facility	2,187,797
Project 20	Point Loma HS: Motion Picture Facility	43,614
Project 21	Point Loma HS: New Classroom Building	98,544
Project 22	Point Loma HS:- Weight Room	641,566
Project 23	San Diego HS: New Classroom Building ORG	387,836
Project 24	Sessions ES: Parking Lot and Student Drop Off/Pick-up Upgrades	1,825,000
Project 25	PPO Projects	6,763,100
Total		\$ 42,408,395

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS

As of June 30, 2011, the principal balance outstanding on the District’s Proposition S general obligation bonds, including accreted interest to date is:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2010	Current Year Additions *	Redeemed Current Year	Outstanding June 30, 2011
Election of 2008, Series A	5/7/2009	2.52% - 6.19%	7/1/2033	\$ 131,157,580	\$ 135,152,580	\$ 3,546,441	\$ -	\$ 138,699,021
Election of 2008, Series B	5/7/2009	7.87%	7/1/2023	38,840,000	38,840,000	-	-	38,840,000
Election of 2008, Series C	8/5/2010	6.10% - 6.80%	7/1/2050	163,869,784	-	166,140,031	-	166,140,031
Election of 2008, Series D	8/5/2010	5.26%	7/1/2027	36,130,000	-	36,130,000	-	36,130,000
			Total	<u>\$ 369,997,364</u>	<u>\$ 173,992,580</u>	<u>\$ 205,816,472</u>	<u>\$ -</u>	<u>\$ 379,809,052</u>

*\$3,546,441 in additions to general obligation bonds are to recognize current period accreted interest on the capital appreciation bonds

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, 2011, are as follows:

Year Ended	Principal*	Current Interest Component	Total
June 30			
2012	\$ 1,150,554	\$ 94,446	\$ 1,245,000
2013	1,336,515	163,485	1,500,000
2014	1,305,735	234,265	1,540,000
2015	1,085,319	315,731	1,401,050
2016	1,004,269	315,731	1,320,000
2017-2021	6,596,224	19,778,376	26,374,600
2022-2026	16,599,891	65,224,109	81,824,000
2027-2031	48,756,865	135,247,136	184,004,001
2032-2033	53,322,209	52,672,691	105,994,900
	<u>\$ 131,157,581</u>	<u>\$ 274,045,970</u>	<u>\$ 405,203,551</u>

* Does not include accreted interest of \$7,541,440

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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 QSCBs are tax credit bonds within the meaning of Section 54F of the Internal Revenue Code (the Code), and accordingly the QSCBs do not bear interest to be paid by the District. The bondholder investors will be allowed a credit under the Code against their federal income tax liability. Proceeds from the sale of QSCBs are restricted to the uses prescribed for bonds designated as QSCBs under Section 54F of the Code.

The annual requirements to amortize Series B Proposition S general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Year Ended June 30	Principal Amount	Tax Credit Amount	Total
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	-	3,056,708	3,056,708
2017-2021	21,340,000	15,283,540	36,623,540
2021-2023	17,500,000	5,349,239	22,849,239
Total	<u>\$ 38,840,000</u>	<u>\$ 35,916,319</u>	<u>\$ 74,756,319</u>

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS (continued)

Election of 2008, Series C

On August 5, 2010, Election of 2008, Series C of the Proposition S bond authorization was issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$163,869,784 with yields to maturity of 6.10% to 6.80% and maturing through July 1, 2050.

The annual requirements to amortize Series C Proposition S general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Year Ended			
June 30	Principal*	Accreted Interest	Total
2012	\$ -	\$ -	\$ -
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
2022-2026	-	-	-
2027-2031	12,408,237	29,406,763	41,815,000
2032-2036	21,549,668	79,055,332	100,605,000
2037-2041	29,898,983	161,281,017	191,180,000
2042-2046	23,854,846	243,180,154	267,035,000
2047-2050	76,158,050	227,436,950	303,595,000
	<u>\$ 163,869,784</u>	<u>\$ 740,360,216</u>	<u>\$ 904,230,000</u>

* Does not include accreted interest of \$2,270,247.

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS (continued)

Election of 2008, Series D-1 and D-2

On August 5, 2010, Election of 2008, Series D-1 and D-2 of the Proposition S bond authorization was issued, which consisted of tax credit bonds with an initial par amount of \$16,130,000 and \$20,000,000, a tax credit rate of 5.26%, and maturing through July 1, 2027. The QSCBs are tax credit bonds within the meaning of Section 54F of the Internal Revenue Code (the Code), and accordingly the QSCBs do not bear interest to be paid by the District. The bondholder investors will be allowed a credit under the Code against their federal income tax liability. Proceeds from the sale of QSCBs are restricted to the uses prescribed for bonds designated as QSCBs under Section 54F of the Code.

The annual requirements to amortize Series D Proposition S general obligation bonds payable outstanding as of June 30, 2011, are as follows:

Year Ended June 30	Principal Amount	Tax Credit Amount	Total
2012	\$ -	\$ 1,900,438	\$ 1,900,438
2013	-	1,900,438	1,900,438
2014	-	1,900,438	1,900,438
2015	-	1,900,438	1,900,438
2016	-	1,900,438	1,900,438
2017-2021	-	9,502,190	9,502,190
2021-2023	15,000,000	9,502,190	24,502,190
2024-2027	21,130,000	3,800,876	24,930,876
Total	<u>\$ 36,130,000</u>	<u>\$ 32,307,446</u>	<u>\$ 68,437,446</u>

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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, 2011 are as follows:

<u>Due To Other Funds</u>	<u>Due From Other Funds</u>			Total
	<u>General Fund</u>	<u>Building Fund</u>	<u>Other Governmental Funds</u>	
Building Fund	\$ 1,233,881	\$ -	\$ 177,988	\$ 1,411,869
Other Governmental Funds	-	316,946	-	316,946
	<u>\$ 1,233,881</u>	<u>\$ 316,946</u>	<u>\$ 177,988</u>	<u>\$ 1,728,815</u>

Prop S Building Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.	\$ 1,233,256
Prop S Building Bond due to County School Facilities Fund for expenditure transfers.	177,988
Prop S Building Bond due to Stores Revolving Fund for inventory expenditure transfers.	625
County School Facilities Fund due to Prop S Building Bond for reimbursement of expenses.	136,231
Developer Fees Capital Facilities Fund due to Prop S Building Bond Fund for reimbursement of expenses.	180,715
	<u>\$ 1,728,815</u>

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 7 – PROPOSITION S EXPENDITURES BY MAJOR OBJECT

The following table presents the expenditure amounts by major object for the fiscal year ended June 30, 2011:

<u>Expenditures by Object</u>	<u>Amount</u>	<u>Percent</u>
Capital outlay	\$ 89,325,595	71.2%
Services and other operating	22,096,297	17.6%
Classified salaries	4,472,957	3.6%
Books and supplies	6,045,845	4.8%
Employee benefits	1,745,895	1.4%
Original issue discount	1,836,513	1.5%
Total	<u>\$ 125,523,102</u>	<u>100.0%</u>

NOTE 8 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District’s Proposition S Bond Building Fund had no expenditures over appropriations for the fiscal year ended June 30, 2011.

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 9 – PROPOSITION 5 EXPENDITURES BY PROJECT

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2011:

School Site	Amount	Percent
Madison High School	\$ 11,567,170	9.2%
Clairemont High School	8,583,050	6.8%
San Diego High School	6,653,320	5.3%
Morse High School	6,358,185	5.1%
Hoover High School	5,615,826	4.5%
Downtown Library School	5,206,000	4.1%
Point Loma High School	4,025,253	3.2%
Serra High School	2,121,760	1.7%
Bell Middle School	1,696,325	1.4%
North Park Elementary School	1,387,906	1.1%
Patrick Henry High School	1,309,218	1.0%
Mira Mesa High School	1,268,798	1.0%
Cherokee Point Elementary School	1,207,258	1.0%
Jefferson Elementary School	1,118,720	0.9%
Language Academy School	1,094,864	0.9%
Gompers Charter School	1,022,223	0.8%
Kroc Institute of Peace and Justice for GATE Program	1,010,303	0.8%
Kearny High School	960,699	0.8%
Ibarra Elementary School	929,561	0.7%
Mann Middle School	914,184	0.7%
Knox Elementary School	901,938	0.7%
Correia Middle School	893,099	0.7%
Crawford High School	833,413	0.7%
Scripps Ranch High School	793,727	0.6%
School of Creative Performing Arts (SCPA)	793,594	0.6%
University City High School	772,837	0.6%
Roosevelt Middle School	722,201	0.6%
Encanto Elementary School	705,461	0.6%
Lincoln High School	695,850	0.6%
Farb Middle School	663,597	0.5%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 9 – PROPOSITION 5 EXPENDITURES BY PROJECT (continued)

School Site	Amount	Percent
Wangenheim Middle School	647,670	0.5%
O'Farrell Community Middle School	644,367	0.5%
Zamorano Elementary School	620,790	0.5%
Hoover High School	612,049	0.5%
Sessions Elementary School	612,033	0.5%
Clark Middle School	603,879	0.5%
Lewis Middle School	595,338	0.5%
Muirlands Middle School	585,128	0.5%
Mission Bay High School	585,021	0.5%
Marshall Middle School	566,527	0.5%
Marston Middle School	525,354	0.4%
Montgomery Middle School	507,469	0.4%
De Portola Middle School	481,493	0.4%
Memorial Middle School	479,685	0.4%
Normal Heights Elementary School	478,824	0.4%
Wilson Middle School	465,731	0.4%
Euclid Elementary School	460,053	0.4%
Pershing Middle School	450,522	0.4%
Marshall Elementary School	449,603	0.4%
Scripps Elementary School	443,284	0.4%
La Jolla High School	430,659	0.3%
Standley Middle School	424,909	0.3%
Pacific Beach MS Middle School	422,566	0.3%
Garfield High School	400,293	0.3%
Audubon Elementary School	380,816	0.3%
Chollas/Mead Elementary School	378,419	0.3%
MacDowell Middle School	376,522	0.3%
Taft Middle School	364,630	0.3%
Porter Elementary School	355,283	0.3%
Bethune Elementary School	354,415	0.3%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 9 – PROPOSITION 5 EXPENDITURES BY PROJECT (continued)

School Site	Amount	Percent
Challenger Middle School	350,349	0.3%
Boone Elementary School	339,004	0.3%
Hamilton Elementary School	311,572	0.2%
Logan Elementary School	289,829	0.2%
Perkins Elementary School	282,263	0.2%
Rosa Parks Elementary School	279,633	0.2%
Linda Vista Elementary School	276,620	0.2%
Emerson Elementary School	272,661	0.2%
Brooklyn Child Development Center	263,542	0.2%
Golden Hill Elementary School	254,254	0.2%
Central Elementary School	238,969	0.2%
Oak Park Elementary School	236,551	0.2%
Jackson Preschool	227,719	0.2%
Anderson Elementary School	226,567	0.2%
Darnall Charter School	222,708	0.2%
Riley K-9 Special Education	222,460	0.2%
Edison Elementary School	221,815	0.2%
Grant Elementary School	218,973	0.2%
Fulton Elementary School	211,708	0.2%
Lindbergh Schweitzer Elementary School	210,012	0.2%
Twain High School	209,113	0.2%
Perry Elementary School	203,370	0.2%
Mason Elementary School	198,560	0.2%
Linda Vista Elementary School	198,376	0.2%
Sequoia Elementary School	196,624	0.2%
Keiller Charter School	194,918	0.2%
Balboa Elementary School	191,993	0.2%
Adams Elementary School	182,367	0.1%
Nye Elementary School	181,516	0.1%
Rodriguez Elementary School	174,890	0.1%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 9 – PROPOSITION 5 EXPENDITURES BY PROJECT (continued)

School Site	Amount	Percent
Miramar Ranch Elementary School	174,029	0.1%
Hage Elementary School	174,010	0.1%
Longfellow Elementary School	170,490	0.1%
La Jolla Elementary School	169,715	0.1%
Penn Elementary School	169,239	0.1%
Carson Elementary School	168,065	0.1%
Spreckels Elementary School	167,211	0.1%
Harriet Tubman Charter School	166,531	0.1%
Miller Elementary School	163,237	0.1%
Ericson Elementary School	161,235	0.1%
Rolando Park Elementary School	161,150	0.1%
San Diego High School	160,440	0.1%
Paradise Hills Elementary School	160,038	0.1%
King/Chavez Charter School	159,691	0.1%
Tierrasanta Elementary School	158,676	0.1%
Kimbrough Elementary School	157,766	0.1%
Carver Elementary School	157,484	0.1%
Hancock Elementary School	156,616	0.1%
Burbank Elementary School	154,438	0.1%
Horton Elementary School	153,860	0.1%
Dingeman Elementary School	150,767	0.1%
Silver Gate Elementary School	149,639	0.1%
Curie Elementary School	149,004	0.1%
Lee Elementary School	147,966	0.1%
Doyle Elementary School	146,997	0.1%
Whitman Elementary School	146,821	0.1%
Florence Elementary School	143,741	0.1%
Angier Elementary School	141,811	0.1%
Fay Elementary School	141,002	0.1%
Garfield Elementary School	140,306	0.1%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 9 – PROPOSITION 5 EXPENDITURES BY PROJECT (continued)

School Site	Amount	Percent
Sandburg Elementary School	139,619	0.1%
Jerabek Elementary School	139,093	0.1%
Bird Rock Elementary School	137,361	0.1%
Ocean Beach Elementary School	136,812	0.1%
Chavez Elementary School	136,324	0.1%
Bay Park Elementary School	134,593	0.1%
Valencia Park Elementary School	131,590	0.1%
Chesterton Elementary School	129,705	0.1%
Hearst Elementary School	128,594	0.1%
Joyner Elementary School	127,664	0.1%
Field Elementary School	126,191	0.1%
Gage Elementary School	125,420	0.1%
Johnson Elementary School	122,540	0.1%
Webster Elementary School	120,400	0.1%
Torrey Pines Elementary School	120,022	0.1%
Rowan Elementary School	119,906	0.1%
Baker Elementary School	118,826	0.1%
McKinley Elementary School	117,804	0.1%
Cubberly Elementary	112,848	0.1%
Bayview Terrace Elementary	112,813	0.1%
Madison High School	112,321	0.1%
Barnard Elementary School	111,041	0.1%
Fletcher Elementary School	110,147	0.1%
Hickman Elementary School	107,637	0.1%
Lafayette Elementary School	107,548	0.1%
Freese Elementary School	107,457	0.1%
Marvin Elementary School	106,320	0.1%
Wiggins Elementary School	105,784	0.1%
Hawthorne Elementary School	105,050	0.1%
Dailard Elementary School	103,661	0.1%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 9– PROPOSITION 5 EXPENDITURES BY PROJECT (continued)

School Site	Amount	Percent
Chollas/Mead Elementary School	102,868	0.1%
Loma Portal Elementary School	101,529	0.1%
Walker Elementary School	100,721	0.1%
Jones Elementary School	98,092	0.1%
Benchley/Weinberger Elementary School	98,066	0.1%
Juarez Elementary School	98,019	0.1%
Sunset View Elementary School	95,569	0.1%
Toler Elementary School	95,190	0.1%
Vista Grande Elementary School	94,999	0.1%
Foster Elementary School	94,872	0.1%
Alcott Elementary School	93,671	0.1%
Franklin Elementary School	89,538	0.1%
Dewey Elementary School	88,015	0.1%
Birney Elementary School	85,585	0.1%
Green Elementary School	83,812	0.1%
Clay Elementary School	83,167	0.1%
Ross Elementary School	82,976	0.1%
Gompers Charter School	80,951	0.1%
Holmes Elementary School	75,969	0.1%
Cleveland Elementary School	73,574	0.1%
Whittier Elementary School	73,061	0.1%
Kumeyaay Elementary School	71,542	0.1%
Pacific Beach Elementary School	71,402	0.1%
Hardy Elementary School	69,002	0.1%
Sherman Elementary School	66,068	0.1%
Cadman Elementary School	58,950	0.0%
Washington Elementary School	52,998	0.0%
Wegeforth Elementary School	50,543	0.0%
Cabrillo Elementary School	46,290	0.0%
Dana Middle School	44,545	0.0%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

NOTE 9 – PROPOSITION 5 EXPENDITURES BY PROJECT (continued)

School Site	Amount	Percent
Twain at Morse High School	29,582	0.0%
Arroyo Paseo Charter High School	24,566	0.0%
Innovations Academy School	23,724	0.0%
Learning Choice Academy	21,980	0.0%
San Diego Metro Career & Technology	12,849	0.0%
Crown Point Elementary School	6,343	0.0%
Miramar Ranch Elementary School	3,032	0.0%
Benchley/Weinberger Elementary School	2,851	0.0%
La Jolla Country Day School	320	0.0%
Financial Support Services	64,131	0.1%
Distribution Svcs Section	67,374	0.1%
Info & Technology Support Svcs	81,261	0.1%
Facilities Planning & Const.	16,086,035	12.8%
Debt Services	2,149,921	1.7%
Strategic Sourcing Department	410,421	0.3%
Communications	142,383	0.1%
Legal Services	121,633	0.1%
Educational Technology	50,029	0.0%
Education Center	10,901	0.0%
Original issue discount	1,836,513	
	\$ 125,523,102	100.0%

NOTE 10 – PROPOSITION 5 EXPENDITURES BY CATEGORY

The following table presents the expenditure amounts by facility type category for the fiscal year ended June 30, 2011:

Expenditures by category:		
Category	Amount	Percent
High schools	\$ 60,511,842	48.2%
Elementary schools	25,184,415	20.1%
Program expenditures	19,184,083	15.3%
Middle schools	13,430,156	10.7%
Other District sites	5,376,093	4.3%
Original issue discount	1,836,513	1.5%
Total	\$ 125,523,102	100.0%

SUPPLEMENTARY INFORMATION SECTION

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – Proposition S Bond Building Fund
For the Fiscal Year Ended June 30, 2011**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
REVENUES				
Other state	\$ -	\$ 21,943,746	\$ 9,166,684	\$ (12,777,062)
Other local	911,000	1,054,951	1,493,467	438,516
Total revenues	911,000	22,998,697	10,660,151	(12,338,546)
EXPENDITURES				
Classified salaries	5,959,700	5,823,318	4,472,957	1,350,361
Employee benefits	2,460,550	2,816,980	1,745,894	1,071,086
Books and supplies	175,641	9,287,997	6,045,845	3,242,152
Services and other operating expenditures	14,404,118	45,851,672	22,096,297	23,755,375
Capital outlay	100,000,000	225,984,594	89,325,597	136,658,997
Total expenditures	123,000,009	289,764,561	123,686,590	166,077,971
Excess (deficiency) of revenues over (under) expenditures	(122,089,009)	(266,765,864)	(113,026,439)	153,739,425
OTHER FINANCING SOURCES AND USES				
Other sources	100,000,000	203,986,219	203,986,219	-
Other uses	-	(1,836,513)	(1,836,513)	-
Total other financing sources and uses	100,000,000	202,149,706	202,149,706	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(22,089,009)	(64,616,158)	89,123,267	153,739,425
Fund balances, July 1, 2010	27,111,481	60,666,622	60,666,622	-
Fund balances, June 30, 2011	\$ 5,022,472	\$ (3,949,536)	\$ 149,789,889	\$ 153,739,425

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
June 30, 2011**

There were no adjustments between the Annual Financial and Budget Report and the Audited Financial Statements in 2010-11.

OTHER INDEPENDENT AUDITORS' REPORT



**INDEPENDENT AUDITORS' 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**

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

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, 2011, and have issued our report thereon dated November 12, 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 #2011-1 #2011-2 and #2011-3 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.

Chrysalis Accountancy Corporation

San Diego, California
November 12, 2011

**AUDIT FINDINGS AND MANAGEMENT'S
RESPONSE SECTION**

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Management's Responses
For the Fiscal Year Ended June 30, 2011**

Finding #2011-1 Financial Audit Finding: Post Award Contracts Payment Process

Audit Finding: We noted that opportunities continue to exist for improving the process for executing Professional Service Vendor payments in the District's post-award contracts area. Our testing of 789 payments made in July 2010 to June 2011 indicated an average time to payment of 37 days. It is important to note that in the second half of the 2010-11 fiscal year, however, processing time dropped from approximately 60 days to payment to 15 days to payment. Good internal control dictates processing vendor payments within 30 days.

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 District has also improved the approval process by eliminating the back and forth communications between the PM and the contracts assistant. To further streamline and improve 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: 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: District concurs. Currently the District has procured the services of a consultant firm that specializes in automating invoicing, payment and integration of the enterprise database systems that the District uses for both financial and project management. The payment invoice, request and approval system that is under production will include an on-line utility that the vendor will access and make request for payment. The system includes checks and balances that prevents the overbilling of services and automates the approval and payment process. Approvals are still required by District managers and Accounts Payable as with the current paper system. The goal is to have the system placed in service first for professional services contracts by February 2012. This should further improve the payment process to allow real-time tracking of invoice and payments to vendors.

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Management's Responses, continued
For the Fiscal Year Ended June 30, 2011**

Finding: #2011-2 Financial Audit Finding: Internal Audit Involvement

Audit Finding: We noted that the District's internal audit department is currently in the process of requesting a position of internal auditor over Proposition S. However, as of the date of this report, the hiring process is not complete. To address this repeat finding, the internal audit department has put together Internal Audit Objectives for the audit of Proposition S funds but currently there are no regular internal audit services provided to the facilities/construction area. Despite the setbacks, as of June 30, 2011, the Internal Audit department randomly selected a school site to audit and is reportedly in the gathering of information stage.

Audit Recommendations: We recommend that internal audit resources be dedicated to the audit of Proposition S projects as part of a robust internal control system. The benefits of internal audit over Proposition S include helping to ensure adherence to district policies and procedures; and, identification of potential waste, abuse and errors.

District Response: Internal Audit began the process of filling the .40 FTE position on 4/20/2011 and on 8/23/2011 reached the point where publication for the position took place. The recruitment process using the District's Human Resources process for filling vacant positions had twice presented the position. The results of these efforts produced no viable candidates for the interview process. This office has now submitted to Human Resources and the Budget Department, the information needed to search for a candidate by a paid posting on the Institute of Internal Auditors' (IIA) website.

The Office of Internal Audit, initially projected at being staffed for 2011/2012 with six positions, is now staffed at five positions; a vacant position now not being filled due to the financial constraints facing the District. A staff member had been assigned to audit at 40% of the position's time but the staff member was pulled to conduct a special investigation. Following the completion of the special investigative assignment, the intent is to have this staff member resume relegating 40% of staff time to Prop S for two months, pending filling of the vacancy.

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Management's Responses, continued
For the Fiscal Year Ended June 30, 2011**

Finding: #2011-3 Financial Audit Finding: Unallowable Expenditures Posted to Proposition S

Audit Finding: The District posted expenses to Proposition S bond funds for projects and activities not on the approved list. The District published a list of intended projects that were to be funded through Proposition S bond proceeds. Based on our initial audit of sample transactions, we identified minor instances in which bond funds were used on projects that were not on the list approved by the voters (e.g.; routine classroom supplies and materials). Upon further inquiry, the facilities department was aware of the charges and made journal entries to reclassify the expenses to another funding source before the close of the fiscal year. Although the expenditures were reclassified as of June 30, 2011 resulting in no questioned costs, the District should have controls in place to ensure that the items are not charged to the fund initially.

Audit Recommendations: Upon further inquiry it appears that some requisitions, especially revisions to earlier preliminary requisitions are not relayed to program controls for detail review. Budgeting opens the account and the budget is determined at the request level. Thus program controls and budget see the account code after the item has been coded. We recommend that program controls and budget approve the account codes at the request level and that a policy be put in place to ensure that all requisitions are provided to program controls for review.

District Response: Facilities Planning and Construction (FPC) takes very seriously the prevention and correction of unallowable expenditures to Proposition S. Reviews of expenditures are made on a monthly basis to identify any potential unallowable expenditure. Each item is reviewed and verified to ensure that expenditures are permissible for Proposition S. When items are discovered that should not have been charged to Proposition S, journal vouchers are processed and submitted to the finance budget department for correction.

When the expenditure approval process was reviewed for all purchases, FPC management determined that the current process was inadequate. The revised process now includes a thorough review by program controls to make sure that items that are purchased are allowable prior to the requisition being made. The budget analyst must fund the budget for the purchase prior to the order being made. Prior to the actual approval of the purchase order a final review is made by program controls and by the final approver to make sure that only the items that were on the approved listing are ordered. The process has been formalized as a departmental process and procedure and is now in effect.

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2011**

Finding: #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 vendor's 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
SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings, continued
For the Fiscal Year Ended June 30, 2011**

Finding: #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.

Current Status: Partially Implemented. See Finding #2011-1

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings, continued
For the Fiscal Year Ended June 30, 2011**

Finding: #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.

Current Status: Partially Implemented. See Finding #2011-2.