



January 10, 2012

The Honorable John Evans and Members of the Board of Education  
San Diego Unified School District  
4100 Normal Street, Room 2231  
San Diego, CA 92103

Subject: FY 2011 Annual Performance Audit and Annual Financial Audit for Proposition S

Dear President Evans and Members of the Board of Education:

The Independent Citizen's Oversight Committee (ICOC) is required to review the annual Proposition S Performance and Financial Audits. The ICOC has reviewed and received audits for the period from July 1, 2010 through June 30, 2011.

On December 12, 2011, the District's auditors, Christy White Accountancy Corporation, presented to the ICOC Audit Subcommittee the final fiscal and performance audits for the fiscal year that ended on June 30, 2011. The Auditor stated that the audits were conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. The Auditor issued opinions that the Proposition S Bond Program complied with all applicable requirements, and that the financial statements present fairly the financial position of Proposition S.

The audits were formally received by the full ICOC on December 15, 2011. While Christy White Accountancy Corporation issued the opinions without any qualifications, the following findings were noted:

- 1) Complex invoice approval processes should be automated for better tracking and efficiency. The District response concurred and cited initiatives to automate the professional services contract invoicing processes by February 2012.
- 2) The District has not yet implemented the 2010 audit recommendation for the District's Office of Internal Audit to conduct audits of the Proposition S program. The District response states that the Internal Audit staff has been cut and existing personnel originally assigned to do the work were re-assigned to conduct a special investigation. As of January 1, 2012, this recommendation still has not been addressed by the District.
- 3) Both the fiscal and performance audits noted minor instances where bond monies were inappropriately committed without review by Proposition S program controls. The errors were corrected prior to the draft audits being prepared. The District response indicates that existing internal control processes have been revised to ensure that the appropriate review occurs prior to the commitment of any Proposition S bond monies.

The Performance Audit reviewed a number of identified areas where effectiveness and efficiency of Proposition S expenditures can be improved, including assuring the sustainability of i21 equipment purchased with bond funds. The Performance Audit noted, and the full ICOC concurs, that the 5-year District Operating Budget allocates up to \$30 million per year for routine repair and replacement of the

newly purchased i21 equipment. However, the ICOC remains concerned about the long-term sustainability of the i21 equipment given the fact that the District has been unable to provide \$25 million in recurring funds for major repair and replacement of over \$4 billion in the District's existing capital assets.

The Performance Audit does not include a review of the process utilized by the District for the issuance of bonds, as no bonds were issued during FY 2011. However, since the 2011 Fiscal Year ended, the District has been studying options for issuing one or more new bonds or refinancing existing Proposition MM bonds during 2012.

The ICOC is concerned that Board decisions regarding the next bond issuance may be based on the opinion/analysis of a single financial advisor despite a recommendation in last year's Performance Audit that the District enlist the services of a second opinion on the expected financing costs for new or refinanced bond issuances.

The 2010 Performance Audit recommended that a second opinion be obtained for future bond issuances. The recommendation was based on significant changes in financing costs for past bond issuances by the District. The ICOC concurred with the 2010 recommendation on this issue in the Performance Audit and continues to recommend that the Board hire a financial advisor with bond experience to provide a second opinion prior to any decision to issue additional Proposition S bonds. Per the prior recommendation by the ICOC's Auditor, this second opinion should review assumptions related to expected construction costs and also should consider providing the Board with a discounted cash flow analysis of options presented.

On behalf of the members of the ICOC, we appreciate the opportunity to serve our community.

Gil Johnson  
Chair, ICOC

Deanna Spehn  
Chair, ICOC Audit Subcommittee