

**MEASURE E BOND BUILDING FUND OF
BEVERLY HILLS UNIFIED
SCHOOL DISTRICT**

AUDIT REPORT

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

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2010
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**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2010**

The Beverly Hills Unified School District was unified in 1935 under the laws of the State of California and consists of an area comprising approximately 5.7 square miles. The District operates four elementary schools, one high school, and one adult school.

In November 2008, the District's voters approved by more than the required 55% favorable vote, Measure E, authorizing the issuance and sale of general obligation bonds, not to exceed \$334,000,000. 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 Los Angeles. On January 6, 2009, Election of 2008, Series 2009 of the Measure E bond authorization was issued, which consisted of current interest bonds and capital appreciation bonds with an initial par amount of \$72,044,664 with stated interest rates of 2.50% to 5.0% and maturing through August 1, 2033. As of June 30, 2010, the principal balance outstanding on the Election of 2008, Series 2009 bond was \$72,044,664.

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 Measure E including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

The 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 of office:

Name	Title	Representation	Education Code Section
Les Bronte	Chair	Active in a Senior Citizens' Organization	15282(a)(2)
Rudy Cole	Vice Chair	Community -at- Large	15282(a)
Woodrow Clark	Member	Active in a Business Organization	15282(a)(1)
Ana LaDou	Member	Parent of Child Enrolled in District	15282(a)(4)
Linda Lewis	Member	Parent of Child Enrolled in District and Active in a Parent-Teacher Organization	15282(a)(5)
Shirley Zaragoza	Member	Parent of Child Enrolled in District	15282(a)(4)
Open	Open	Active in a Bona Fide Taxpayers' Organization	15282(a)(3)
Steve Hendry	Member	Community -at- Large, Finance Background Member	15282(a)
Todd Okum	Member	Community -at- Large, Construction Background Member	15282(a)
Martin Perlberger	Member	Community -at- Large	15282(a)
Joe Safier	Member	Community -at- Large, Finance Background Member	15282(a)
Julie Steinberg	Member	Community -at- Large	15282(a)

Governing Board Members and
Measure E Citizens' Oversight Committee
Beverly Hills Unified School District
Beverly Hills, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying balance sheet of the Measure E Bond Building Fund of Beverly Hills 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 Measure E Bond Building Fund, consisting of the net construction proceeds of Measure E general obligation bonds as issued by the District, through the County of Los Angeles, 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 Measure E Bond Building Fund of Beverly Hills 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 December 10, 2010 on our consideration of Beverly Hills 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 December 10, 2010 on our consideration of Beverly Hills Unified School District's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Measure E Bond Building Fund for the fiscal year ended June 30, 2010 and should be considered in assessing the results of our financial audit.

Chertoff White Accountancy Corporation

San Diego, California
December 10, 2010

Financial Section

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2010**

ASSETS

Cash in county treasury	\$	63,474,622
Accounts receivable		214,516
Due from other funds		<u>2,000,000</u>

Total Assets	\$	<u>65,689,138</u>
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LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	<u>169,755</u>
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Total Liabilities		<u>169,755</u>
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Fund Balance

Unreserved		<u>65,519,383</u>
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Total Liabilities and Fund Balance	\$	<u>65,689,138</u>
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The accompanying notes to financial statements are an integral part of this statement.

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2010**

REVENUES	
Interest income	\$ 934,446
Other local revenue	65,878
	<hr/>
Total Revenues	1,000,324
	<hr/>
EXPENDITURES	
Facilities acquisition and construction	3,828,334
	<hr/>
Total Expenditures	3,828,334
	<hr/>
Net Change in Fund Balance	(2,828,010)
Fund Balance, July 1, 2009	68,347,393
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Fund Balance, June 30, 2010	\$ 65,519,383
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The accompanying notes to financial statements are an integral part of this statement.

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Beverly Hills Unified School District (the “District”) was established in 1935. The District serves approximately 10,126 students in four elementary schools, one high school, and one adult school.

On November 4, 2008 the District voters authorized \$334 million in general obligation bonds (Measure E) to provide safe and modernized school facilities, make necessary structural seismic safety repairs, upgrade, repair, and reconstruct aging classrooms, infrastructure, multiuse, gyms, libraries, science, technology & labs; roofing, plumbing, heating, ventilation and electrical systems to better protect students and staff from unauthorized entry, security risks and natural disasters.

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

The statements presented are for the individual Measure E Bond Building Fund of the District, consisting of the net construction proceeds of Election of 2008, Series 2009 general obligation bonds as issued by the District, through the County of Los Angeles, 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).

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

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 Los Angeles 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.

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

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 \$63,474,622.

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.

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT**
Notes to Financial Statements
June 30, 2010

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 Los Angeles County Investment Pool with a fair value of approximately \$63,844,143 and an amortized book value of \$63,474,622. The weighted average maturity for this pool as of June 30, 2010 was 536 days.

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

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. Investments within the Los Angeles County Investment Pool are rated at least A by Moody's Investors Service.

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 \$214,516 as of June 30, 2010 consists of interest earned on the District's investment in the County Treasury.

NOTE 4 – CONSTRUCTION COMMITMENTS

The Measure E Bond Building Fund had no construction commitments as of June 30, 2010.

NOTE 5 – MEASURE E GENERAL OBLIGATION BONDS

As of June 30, 2010, the principal balance outstanding on the District's Measure E general obligation bonds is indicated as follows:

	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2009	Additions	Deletions	Outstanding June 30, 2010
Series 2009	1/6/2009	2.50% - 5.00%	8/1/2033	\$ 72,044,664	\$ 72,044,664	\$ -	\$ -	\$ 72,044,664

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

NOTE 5 – MEASURE E GENERAL OBLIGATION BONDS (continued)

Election of 2008, Series 2009

On January 6, 2009, Series 2009 bonds of the Measure E bond authorization were issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$72,044,664, with stated interest rates of 2.50% to 5.0% and maturing through August 1, 2033.

The annual requirements to amortize all Measure E general obligation bonds payable outstanding as of June 30, 2010, are as follows:

Year Ended June 30,	Principal*	Interest	Total
2011	\$ -	\$ 534,463	\$ 534,463
2012	-	534,463	534,463
2013	-	534,463	534,463
2014	-	534,463	534,463
2015	350,000	534,463	884,463
2016-2020	8,535,000	2,236,839	10,771,839
2021-2025	13,656,334	14,997,416	28,653,750
2026-2030	24,695,030	50,304,970	75,000,000
2031-2034	24,808,300	79,191,700	104,000,000
Total	<u>\$ 72,044,664</u>	<u>\$ 149,403,240</u>	<u>\$ 221,447,904</u>

* Principal excludes \$1,903,085 of accreted interest as of June 30, 2010.

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

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

As of June 30, 2010, the Measure E Bond Building Fund had a interfund receivable from the District's General Fund for \$2,000,000. This amount was borrowed for temporary cash flow purposes, and was subsequently repaid on August 25, 2010.

NOTE 7 – MEASURE E EXPENDITURES BY MAJOR OBJECT

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

<u>Expenditures by Object</u>	<u>Amount</u>	<u>Percent</u>
Classified salaries	\$ 22,615	0.6%
Employee benefits	7,134	0.2%
Books and supplies	17,581	0.5%
Services and other operating expenditures	1,304,625	34.1%
Capital outlay	2,476,379	64.7%
Total	<u>\$ 3,828,334</u>	<u>100.0%</u>

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

NOTE 8 – MEASURE E 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>
Beverly Vista School	\$ 137,503	3.6%
El Rodeo School	455,492	11.9%
Hawthorne Elementary School	420,712	11.0%
Horace Mann School	1,077,129	28.1%
Beverly Hills High School	708,888	18.5%
Facilities and planning	30,724	0.8%
Legal fees	503,304	13.1%
Program administration	494,582	12.9%
Total	<u>\$ 3,828,334</u>	<u>100.0%</u>

NOTE 9 – COMMITMENTS AND CONTINGENCIES

During the 2009-10 fiscal year, the District was involved in litigation related to the Measure E bond program. On August 28, 2009 and September 3, 2009, the District filed a Complaint of Damages against Strategic Concepts, LLC, the Measure E Bond project management consultant, as well as a Notice of Related Cases for purpose of California Rules of Court. The District is seeking to recover \$4 million in fees paid to Strategic Concepts, LLC. Strategic Concepts, LLC has filed a countersuit against the District to recoup \$16 million related to their contract with the District.

As of June 30, 2010, no provision has been made for the litigation in the Measure E Bond Building Fund as the outcome of the litigation is unknown. The litigation is currently awaiting trial.

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010**

NOTE 10 – SUBSEQUENT EVENTS

Interfund Borrowing

The District's General Fund borrowed an additional \$2,000,000 from the Measure E Bond Building Fund on October 27, 2010 to help offset cash flow deficits. In accordance with Education Code Section 42603, this amount is required to be repaid by June 30, 2011.

Other Independent Auditor's Report

Governing Board Members and
Measure E Citizens' Oversight Committee
Beverly Hills Unified School District
Beverly Hills, 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 Measure E Bond Building Fund of Beverly Hills Unified School District (the "District") as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated December 10, 2010. 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 Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Beverly Hills 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 Beverly Hills Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Beverly Hills 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 Measure E Bond Building Fund of Beverly Hills 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*.

Beverly Hills Unified School District'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 Beverly Hills Unified School District'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 Measure E Citizens' Oversight Committee, management, others within the entity, and the taxpayers of Beverly Hills Unified School District, and is not intended to be and should not be used by anyone other than these specified parties.

Christine White Accountancy Corporation

San Diego, California
December 10, 2010

*Audit Findings and
Management's Responses Section*

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Management's Responses
For the Fiscal Year Ended June 30, 2010**

#2010-1 Financial Audit Finding: Expenditure Internal Controls

Audit Finding: We identified the following areas for improving the District's internal controls over Measure E Bond Program expenditures:

- 11 of 34 expenditures tested in fiscal year 2009-10 had a purchase order dated following the invoice date.
- 7 of 34 expenditures tested in fiscal year 2009-10 had no purchase order in place.
- A \$118,163.88 payment to LVH Entertainment Systems in August 2009 made from the Measure E Bond Building Fund in 2009-10 for retainage was for a contract for electrical and related work that had an original value of \$663,643 and total change orders in the amount of \$517,995.71. In this case, the 13 individual change orders were individually below 10% of the contract amount, per Los Angeles County requirements, but in total exceeded 10% of the contract amount per Public Contract Code Section 20118.4.
- \$2.1 million in prior year (2008-09) expenditures we tested that were made from the Measure E Bond Building Fund to vendor Strategic Concepts had control deficiencies and questionable aspects, including lack of itemization as to how monthly program and project management costs were charged; no usage of purchase orders; contract not accurately monitored in payment history summary; relatively high level of fixed charges early in the bond program (including billings for the three months prior to bond issuance); improper general ledger coding for web site related expenditures; and relatively high levels of reimbursable items such as food and AT&T wireless bills.

Recommendation: We recommend that purchase orders be created prior to Measure E expenditures to document authorization for expenditures and to properly encumber funds. We recommend that the District take steps to limit construction contract change orders, such as in the case of LVH Entertainment Systems. The District is advised to undertake an investigation of payments made to vendor Strategic Concepts from the Measure E bond program. Any amounts recovered from Strategic Concepts should be reimbursed to the Measure E Bond Building Fund.

Although the District has obtained a legal opinion stating that charging construction-related legal fees to the Measure E Bond Building Fund is permissible, we would caution the District that the amount of legal fees paid be closely monitored so that Measure E funds can be maximized in their direct application toward facilities modernization and construction purposes.

Management's Response: The administration of the bond program has changed and stricter internal controls and processes are being put into place. The District is creating purchase orders for tracking the contract for projects under the Bond Funds. The Facilities Department is also using facility software to track the detail of each project as it relates to budget, estimates, and actuals. These projects will be incorporated into the District's financial reports utilizing purchase orders, acknowledging change orders as a line item adjustment to the purchase order, and tracking contracts over fiscal years as appropriate. The current administration is following the maximum change order amount of 10% in conjunction with the Los Angeles County Office of Education Bulletin on Commercial Warrants for established criteria.

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Management's Responses
For the Fiscal Year Ended June 30, 2010**

#2010-2 Financial Audit Finding: Interfund Borrowing of Measure E Bond Proceeds

Audit Finding: We noted that the District's General Fund borrowed \$4 million of Measure E bond proceeds in 2009-10, as of December 2009, repaying \$2 million in February 2010 and repaying the remaining \$2 million in August 2010. Amounts were repaid with interest. The August 2010 repayment was not in compliance with Education Code Section 42603, which requires that interfund borrowings not made in the final 120 days of the fiscal year be repaid within the same fiscal year.

We proposed, and the District made, a reclassification adjustment to properly reflect the August 2010 repayment of the \$2 million borrowed by the General Fund from the Measure E Bond Building Fund as an amount repaid in the 2010-11 fiscal year rather than as a repayment of the 2009-10 fiscal year. The reclassification adjustment was necessary because the \$2 million August 2010 repayment transaction was recorded during the year-end closing process, causing a retroactive adjustment to the 2009-10 fiscal period because the financial records for 2009-10 were still open.

An additional \$2 million was borrowed by the General Fund from the Measure E Bond Building Fund in October 2010, and has not yet been repaid as of November 2010.

Recommendation: We recommend that the District take steps to comply with Education Code Section 42603 requirements for interfund borrowing in the future. Amounts borrowed from the Measure E Bond Building Fund should be kept to a minimum, to fully comply with statutory and local ballot language prohibitions on usage of bond funds for administrative purposes.

Management's Response: Staff processed the reimbursement to the General Fund including interest as part of the year-end processing. Procedures to make the repayments in time have been implemented. The District will use the property tax payment cycles to repay the temporary cash borrowing and remit interest at the same time.

**MEASURE E BOND BUILDING FUND
OF BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010**

Finding #2009-1: Expenditures

Finding: Measure E expenditures had five total transactions determined to be disallowed for a total of \$2,769. The types of expenditures disallowed include conference costs, rental car, and meal costs.

Current Status: Implemented. The General Fund reimbursed the Measure E Bond Building fund in fiscal year 2009-10 for the \$2,769 questioned costs of the prior year audit.