

**BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Measure E Bond Program**

PERFORMANCE AUDIT REPORT

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

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

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

We have conducted a performance audit of the Measure E Bond Program of Beverly Hills Unified School District's (the District) compliance with California Proposition 39, as incorporated in Article 13A of the California Constitution and Education Code Section 15264 et seq., during the fiscal year that ended on June 30, 2010. Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our performance audit.

We conducted this performance audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to performance 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 sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The attached performance audit report as referenced in the table of contents presents the objectives, scope, and methodology of the audit. The performance audit report also includes the results of our performance audit, including our findings, conclusions, and recommendations. Management's responses to the findings of our performance audit are indicated 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.

We have audited the financial statements of the Measure E Bond Program 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In our opinion, the Measure E Bond Program complied, in all material respects, with the aforementioned requirements during the fiscal year that ended on June 30, 2010, except as noted in the accompanying schedule of audit findings and management's responses. This report is intended solely for the information and use of the District's Governing Board, the Measure E COC, 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.

Chint White Accountancy Corporation

San Diego, California
December 10, 2010

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Beverly Hills Unified School District (the District) has implemented controls over the expenditure of Measure E school construction bond proceeds, to comply with Proposition 39 requirements as well as the requirements of the Measure E ballot measure. The performance audit evaluated Measure E Bond Program internal controls and Measure E expenditures, and as noted in the accompanying schedule of audit findings and management's responses, certain exceptions were noted regarding the use of Measure E Bond Program funds for approved Measure E purposes.

The District's plans for prudent use of Measure E Bond Program funds properly considers critical school needs, including seismic safety requirements, school and student safety issues, computer technology, and aging, outdated or deteriorating school buildings. The scope of the Measure E Bond Program was defined in the formulation of the Measure E ballot language that was approved by District voters on November 4, 2008. The Priority School Project Lists of the final Measure E ballot language reflects the Governing Board's evaluation of student safety, class size, and information technology needs of the District.

This report is the second annual performance audit report of the Measure E Bond Program, as Measure E was approved by the District's voters during the fiscal year ended June 30, 2009.

Summary of Key Good Practices

- Business office and County-level internal controls to ensure that necessary approvals are obtained, and proper supporting documentation exists for construction-related expenditures.
- Coordination of District facilities staff with an outside construction management and program management firm.
- A competitive selection process was utilized for the construction management and program management firm, exceeding minimum Government Code and Education Code standards.
- A Citizens' Oversight Committee (COC) is overseeing the activities of the Measure E Bond Program, in accordance with Education Code requirements.

Summary of Audit Findings and Key Opportunities for Measure E Bond Program Improvement

- The District has lifted its construction moratorium and expects to move toward finalizing its Facilities Master Plan, and commencing certain K-8 school construction projects in 2011. The commencement of construction will enable the District to minimize any arbitrage liability that may arise regarding the unspent bond proceeds.
- The District will need to monitor its level of staffing for the Measure E Bond Program as the District moves into the construction phase, periodically assessing the mix between District employees and contractors. Areas of staffing need will include the areas of accounting, purchasing, and budgeting support; as well as program and construction management.
- Two areas for improvement were noted in the area of COC activities: appointing a COC member who is a representative of a bona fide taxpayers' association (Education Code Section 15282(a)(3)), and timely posting of COC minutes to the District's web site (Education Code Section 15280(b)).
- The District should minimize temporary interfund borrowing from Measure E funds, given prohibitions on the usage of Measure E funds for administrative purposes.
- The District should closely monitor amounts paid for construction-related litigation charged to the Measure E bond fund, to maximize the funds available for facilities construction projects.
- Purchase orders should be consistently established and funds encumbered prior to the expenditure of funds for Measure E projects.

BACKGROUND INFORMATION

BACKGROUND INFORMATION

The Measure E ballot measure was approved by District voters in November 2008 to provide \$334 million in improvements to Beverly Hills Unified School District facilities. Measure E is a Proposition 39 bond, requiring 55% favorable vote for passage and requirements per Article 13A of the California Constitution, as paraphrased:

- Proceeds from the sale of bonds be used only for the purpose of construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities, and not for any other purpose, including teacher and administrative salaries and other school operating expenses.
- A list be developed for the specific school facilities projects to be funded, and certification that the school district board has evaluated safety, class size reduction, and information technology needs in developing that list.
- A requirement that the school district board conduct annual, independent financial and performance audits until all of the bond proceeds have been expended for the school facilities projects. The performance audit is done to ensure that the funds have been expended only on the specific projects listed.

Per the Measure E ballot language, Measure E will enable the District 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; renovate Beverly Hills Unified School District schools to better protect students/staff from authorized entry, security risks and natural disasters."

The Bond Project List section of the Measure E ballot language is derived from the District's 2008 Draft Facilities Master Plan for the specific projects that the District proposes to finance with the proceeds from the Measure E bonds. Listed projects are completed as needed at a particular school site according to the preliminary conceptual project listings (per pages 16 and 17 of the 2008 Draft Facilities Master Plan). The preliminary conceptual project listings were formulated by the District's Facilities Planning Committee and approved by the Board in August 2008. The District intends to update and finalize its Facilities Master Plan in 2011.

Election of 2008 Series 2009 bonds were sold in January 2009, generating \$72.0 million in bond proceeds for Measure E programs. The District plans to issue future series of Measure E bonds based on project financial needs, while preserving the applicable property tax limitation.

Christy White Accountancy Corporation was engaged by the District to provide the required annual Measure E Bond Program financial and performance audits for the fiscal year ended June 30, 2010.

OBJECTIVES AND SCOPE OF THE AUDIT

OBJECTIVES AND SCOPE OF THE AUDIT

Christy White Accountancy Corporation (CWA) met with District management and the Measure E Citizens' Oversight Committee (COC) to outline key objectives and audit scope prior to beginning the financial and performance audit fieldwork. The objectives and scope items listed below provided the framework for the Measure E Bond Program performance audit engagement for the fiscal year ended June 30, 2010. CWA believes the objectives and scope items listed below are sufficient for us to render our auditor's opinion on performance regarding the District's Measure E Bond Program.

1. Bond Requirements and Controls

- a. Determine compliance with Bond requirements and controls established to assure efficiency and effectiveness of the construction program.
- b. Specific items addressed include evaluation of the District's Facilities Master Plan, COC composition and activities, annual performance and financial audits, and compliance with applicable state laws.

2. Bond Expenditures

- a. Validate expenditures against Bond projects listed in the Measure E ballot language, permissible purposes, and contract terms and conditions.
- b. Specific items addressed include evaluation of the Bond Project List in the Measure E ballot language, compliance with the Public Contract Code, and project budget and expenditure reporting to the COC.

3. Bond Management Practices

- a. Determine the current status of legally mandated management practices, internal controls and best business practices, for managing bond construction programs.
- b. Specific items addressed include scope, schedule, and budget controls; vendor selection and procurement procedures; and payment procedures.

4. Other Specific Procedures

- a. Other specific procedures performed include:
 - i. Inspection of Measure E ballot language and bond official statements
 - ii. Facilities planning documentation, such as the 2008 Draft Facilities Master Plan
 - iii. Documentation of internal controls, policies, and procedures
 - iv. Review of bond management plan, staffing plan, and status of bond projects
 - v. Inspection of vendor selection documentation
 - vi. Inspection of contracts, including the construction management/program management contract
 - vii. On a sample basis, inspection of payment applications and invoices
 - viii. Inspection of relevant financial records and transactions, including charges for District employees and consultants working on the Measure E Bond Program
 - ix. Inspection of Governing Board and COC meeting minutes and reports
 - x. Interviewing District personnel and stakeholders
 - xi. Performing site walks

**AUDIT METHODOLOGY AND
RESULTS OF TESTING**

AUDIT METHODOLOGY AND RESULTS OF TESTING

Following is a summary of the audit methodology and results for the performance audit we performed for the fiscal year ended June 30, 2010.

1. Bond Requirements and Controls

We found in our testing that bond requirements were met and controls were operating effectively to assure the efficiency and effectiveness of the construction program. The District coordinates with its legal and financial advisors to ensure that Measure E bond issuances do not exceed the property assessed valuation limitation in the District's area. The first series of Measure E bonds, in the amount of \$72.0 million, was issued in January 2009. To remain within the applicable assessed valuation limitation, subject to Board approval and financial market conditions, the District plans to issue \$44.0 million of bonds in 2012, \$39.0 million of bonds in 2015, and \$179.0 million of bonds in 2017. Under this plan of bond issuance, bridge financing may be required to support the planned high school construction beginning as early as 2013.

The Measure E COC was established by the District in February 2009, and beginning with the COC's first meeting in April 2009 the COC has actively monitored the District's Measure E Bond Program. We verified that the expenditure data being reported to the COC is consistent with the data in the District's general ledger system.

We found that the District properly considered safety, class size reduction, and information technology needs in its adoption of the 2008 Draft Facilities Master Plan, whose key objectives were presented to and approved by the Governing Board, and which served as the precursor to the Governing Board's review and approval of the Measure E ballot language. The Measure E ballot language in the Bond Project List section of the ballot certifies the Governing Board's compliance with this requirement per the California Constitution Article 13A, Section 1(b)(3)(B).

The Governing Board of the District approves facilities project priorities, subject to constraints set forth in the Measure E ballot language as well as the funding constraints presented by the local property tax limitation. The Board-approved project listing is located at pages 16 and 17 of the 2008 Draft Facilities Master Plan.

The first series of the Measure E bonds were issued in January 2009, and were properly deposited in the Measure E Bond Building Fund of the District. The Measure E bond issuance transaction, for Series A and B bonds, was audited in the fiscal year ended June 30, 2009.

The Governing Board and management have properly procured the required annual financial and performance audits for the Measure E Bond Program, including the financial and performance audits for the fiscal years ended June 30, 2009 and 2010, respectively.

2. Bond Expenditures

CWA tested thirty-four (34) Measure E expenditures, representing \$1.8 million (47.7%) of Measure E expenditures made for the 2009-10 fiscal year. The expenditures tested were selected haphazardly from a listing of Measure E expenditures provided by the District for the fiscal year ended June 30, 2010. As part of our expenditure testing, we also selected for testing the payroll expenditures for District employees involved in Measure E during the fiscal year ended June 30, 2010, to ascertain how employees' wages and benefits were being charged to District funds.

We found in all cases that the 2009-10 expenditures tested were for permissible Measure E purposes, in accordance with the Measure E ballot language. As of the date of our year-end audit fieldwork in November 2010, \$642,986 in legal expenses had been paid from Measure E funds, with significant portions of this amount spent on the Strategic Concepts litigation, environmental legal services, and other legal fees related to the construction program. The District received an opinion from its bond counsel in September 2009 that these legal fees are permissible expenditures for the Measure E Bond Program, primarily because they meet the requirements for administrative costs directly related to the bond program as defined in the California Attorney General's November 2004 Opinion #04-110.

In 2009-10, salaries and benefits for the Chief Facilities Officer and charges for Measure E administrative support and facilities consultant were allocated to the Measure E Bond Building Fund. Administrative support costs were charged at a rate of 75% to the Measure E Bond Building Fund and 25% to the General Fund, and the facilities consultant costs were charged at a rate of 95% to the Measure E Bond Building Fund and 5% to the General Fund.

We verified that the District's construction and program manager, Bernards Bros., Inc., was selected by the Board in August 2010 following a competitive selection process. The total contract amount with Bernards Bros., Inc. for the Measure E Bond Program is based on hourly billings not to exceed \$13.9 million, with a \$0.9 million cap on reimbursable expenditures. Bernards Bros., Inc. will provide services to the District's Measure E Bond Program in the areas of program budgeting and planning; cost estimating; project management; design review; facilitation of competitive bidding process; coordination of contracting process; coordination of site work; monitoring labor compliance; monitoring contractor payment applications; and inspecting construction work performed.

3. Bond Management Practices

We made inquiries of management, members of the Governing Board and COC, and inspected and obtained project scheduling and budgetary documents in our evaluation of bond management practices. Under the Measure E ballot language, and in accordance with their responsibilities, the Governing Board and management of the District plan to prioritize the Measure E bond projects commensurate with the finalization of the Facilities Master Plan.

Regular reporting on construction progress and future construction plans is made by the facilities department to the Governing Board, management, and COC. Project budget and expenditure reports are provided to the COC, as prepared by the District's facilities department.

3. Bond Management Practices, Continued

We selected the July/August 2010 expenditure report to the COC for testing on a sample basis, and agreed expenditure amounts reported to the District's general ledger system without exception. We noted that the facilities department is evaluating making a transition to specialized facilities planning software to facilitate Measure E Bond Program planning and reporting functions. The current program expenditure reporting is based on a manual spreadsheet process, whereby general ledger data are periodically keyed in to the spreadsheet. Specialized facilities planning software may better automate this process.

The District's facilities department currently has a staff of one Chief Facilities Officer and a facilities consultant. Additional hiring is planned in the areas of an information technology specialist and two construction and program managers. Evaluation will be made regarding the hiring or relying on contract labor for additional accounting, budgeting, and purchasing staff to support the Measure E Bond Program. As construction ramps up, with the recent lifting of the Measure E construction moratorium, the District will be advised to periodically assess the mix between employees and contractors to deliver support services such as program and construction management, budgeting, accounting, and purchasing.

4. Other Specific Procedures

As part of our performance audit and financial audit procedures, we inspected voter material including the Measure E ballot language, and bond documents such as the Election of 2008 bond official statements. We reviewed the District's 2008 Draft Facilities Master Plan, as it was presented to the Governing Board in 2008 prior to the formation and passage of Measure E. We verified in inspecting these documents that bond proceeds had been spent on permissible Measure E facilities purposes, and that the Governing Board had sufficiently planned for the Measure E Bond Program. We observed that the 2008 Draft Facilities Master Plan provides a roadmap for implementation of the Measure E program, and that the District plans to finalize the Master Plan in 2011.

We made inquiries of District employees working in the fiscal services department and the facilities department in order to determine the design and implementation of internal controls related to the Measure E bond program. Internal controls over procurement, construction expenditures, and compliance with applicable laws and regulations, and project budgeting were examined. Detail testing of expenditures (vendor payments as well as payroll expenditures) and contracts procurement was performed to verify the operating effectiveness of the internal controls. We found that internal controls over the compliance requirements applicable to the Measure E Bond Program were operating effectively during the fiscal year ended June 30, 2010, except as noted in our performance audit findings. Business office and County-level controls are in place to ensure that proper approvals are obtained, and proper supporting documentation exists for construction-related expenditures.

4. Other Specific Procedures, Continued

In order to physically observe the existence of Measure E construction projects, we conducted a site walk of the Horace Mann School and Beverly Vista School, where construction took place prior to year-end audit fieldwork in November 2010. At Horace Mann School, we observed that work had been performed on the portable classroom buildings and restroom. Work had been performed in July/August 2010 to install new portable classrooms, and make improvements to existing portable classrooms in the areas of new carpeting, roof sealing, and ADA ramp work. At Beverly Vista School, we observed that work had been performed in Summer 2010 through the date of audit fieldwork in November 2010 to install two new boiler units on the roof of the school building, and hand rails and steps near the entrance to the school site.

We found as a result of our site walk and expenditure testing that Measure E expenditures made during the fiscal year ended June 30, 2010, through the date of our year-end audit testing in November 2010, were resulting in the physical improvement of District facilities or were otherwise directly related to the Measure E bond program, and that the Measure E monies spent were permissible in accordance with the Measure E ballot language and the requirements of California Constitution Article 13A.

Our expenditure testing for the 2009-10 fiscal year indicated that expenditure internal controls could be strengthened in the areas of purchase order execution: 11 of 34 expenditures tested had a purchase order dated after invoice date, and 7 of 34 expenditures tested had no purchase order. We recommend that all vendor payments are based on a purchase order (in addition to an approved contract, if applicable), properly executed prior to the expenditure.

One 2009-10 payment from the Measure E Bond Building Fund of \$118,163.88 in August 2009 for retainage upon completion of work to vendor LVH Entertainment Systems was based on an original contract amount \$663,643 for electrical and other work performed at El Rodeo, Hawthorne, and Horace Mann Schools. The original contract amount, approved in December 2007 and previously paid from other District capital project funds, was revised for 13 change orders in the amount of \$517,995.71. All of the change orders were less than 10% of total contract amount, but the number of change orders and their aggregate amount are questionable.

Based on our risk assessment, we performed an expanded audit procedure to test 2008-09 payments made to Strategic Concepts (totaling \$2.1 million, paid from Measure E), upon learning about potential irregularities regarding the District's relationship with prior construction vendor Strategic Concepts. We tested 12 payments made to Strategic Concepts in 2008-09, totaling \$2.1 million, and noted internal control weaknesses and irregularities in the areas of: 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.

4. Other Specific Procedures, Continued

Since the Measure E construction moratorium was lifted in August 2010, the construction program can now move forward. The 2-year spending exemption for IRS arbitrage purposes will expire for the Series 2009 bonds in January 2011. To maintain the Measure E bonds' tax-exempt status, the District will need to remain alert for potential arbitrage liability and monitor the need to file periodic arbitrage tax returns on IRS Form 8038-T, remitting to the IRS any required arbitrage payment or penalty amount.

We noted during the 2009-10 audit that the District's General Fund had borrowed \$4 million from the Measure E Bond Building Fund during 2009-10, as of December 2009. \$2 million of this amount was repaid in February 2010 and the remaining \$2 million outstanding was paid in August 2010. Amounts were repaid with interest. An additional \$2 million was borrowed by the General Fund from the Measure E Bond Building Fund in October 2010. Education Code Section 42603 indicates that amounts transferred shall be repaid in the same fiscal year, except for borrowings occurring within the last 120 calendar days of the fiscal year. Since the \$2 million repayment made in August 2010 followed the conclusion of the 2009-10 fiscal year, the District was not in compliance with Education Code Section 42603. We would further recommend that the District seek to minimize borrowing from Measure E bond proceeds, given statutory and local ballot language prohibitions placed on usage of bond proceeds for administrative purposes.

With respect to Measure E COC activities, we noted two potential areas for improvement:

- Timely posting of Measure E COC minutes to the District's web site: as of the date of our year-end audit fieldwork in November 2010, we noted that COC minutes for the months of May, June, and September had not yet been posted to the District's web site. Education Code Section 15280(b) requires that COC minutes be posted to the District's web site.
- COC taxpayer association representative: the COC does not currently have a representative of a bona fide taxpayer association, as required by Education Code Section 15282(a)(3).

The accompanying schedule of audit findings and management's responses contains our audit findings from the other specific procedures performed. #2010-1 Performance Audit Finding pertains to COC activities; #2010-2 Performance Audit Finding addresses expenditure internal controls; and #2010-3 Performance Audit Finding relates to temporary interfund borrowing of Measure E bond proceeds.

**SCHEDULE OF AUDIT FINDINGS
AND MANAGEMENT'S RESPONSES**

SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES

Following is a summary of the audit findings and management's responses to the audit findings for the performance audit performed for the fiscal year ended June 30, 2010.

#2010-1 Performance Audit Finding: COC Activities

Audit Finding: We identified the following areas for potential improvement in the area of Measure E Citizens' Oversight Committee (COC) activities:

- Approved meeting minutes from Measure E COC meetings were not posted timely to the District's web site for the months of May, June, and September 2010, as required by Education Code Section 15280(b).
- The Measure E COC does not currently have a representative from a bona fide taxpayers' association, as required by Education Code Section 15282(a)(3).

Recommendation: We recommend that the District post the minutes of the COC to the District web site immediately following the approval of the minutes. The District should appoint a member to the COC that represents a bona fide taxpayers' association.

Management's Response: Administration will be posting regular approved meeting minutes for all COC meetings. Hard copies of the approved meeting minutes are available for review in the Facilities office. The District is actively looking for a representative to fill the bona fide taxpayers' association position on the COC as required by Education Code.

SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES, CONTINUED

#2010-2 Performance 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 the 2009-10 fiscal year had a purchase order dated following the invoice date.
- 7 of 34 expenditures tested in the 2009-10 fiscal year 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 reimbursables for 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.

SCHEDULE OF AUDIT FINDINGS AND MANAGEMENT'S RESPONSES, CONTINUED

#2010-3 Performance 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.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

#2009-1 Performance Audit Finding: Expenditures

Audit Finding: Measure E expenditures had five transactions to be disallowed for a total of \$2,769. Type of expenditures disallowed included conference costs, rental car and meal costs.

There was no Final Facilities Master Plan adopted by the Board. Program and project management costs charged by firms hired to perform program and project management services should reconcile to planned rates for these services as disclosed in the Final Facilities Master Plan and the applicable contracts.

Current Status: Partially implemented. The General Fund reimbursed the Measure E Bond Building Fund in 2009-10 for the \$2,769 questioned cost of the prior year audit. The Facilities Master Plan remains in draft form as of the date of year-end audit testing in November 2010. The District expects to finalize the Facilities Master Plan in 2011.

Management's Response: The District has a request for proposal currently being circulated for consultant(s) to review and complete the Facilities Master Plan. This will allow the further review, planning, and prioritizing for projects in meeting the bond language criteria, addressing current needs, and prioritizing the projects to control cash assets in the most efficient and accountable way.