

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

FINANCIAL AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2012**



**MEASURE E BOND BUILDING FUND
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2012
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**MEASURE E BOND BUILDING FUND
 BEVERLY HILLS UNIFIED SCHOOL DISTRICT
 Introduction and Citizens' Oversight Committee Member Listing
 June 30, 2012**

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, 2012, the principal balance outstanding on the Election of 2008, Series 2009 bond was \$81,978,820.

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, 2012, all of whom were appointed by the District's Board of Education with one to two year terms of office:

Name	Title	Representation	Education Code Section
Woodrow Clark II	Chair	Active in a Business Organization	15282(a)(1)
Steve Hendry	Vice Chair	Parent of Child Enrolled in District	15282(a)(4)
Joe Safier	Member	Active in a Senior Citizens' Organization	15282(a)(2)
Howard Goldstein	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)
Fran Cohen	Member	Active in a Bona Fide Taxpayers' Organization	15282(a)(3)
Leslie Bell	Member	Community -at- Large	15282(a)
Craig Davis	Member	Community -at- Large	15282(a)
Fred Fenster	Member	Community -at- Large	15282(a)

INDEPENDENT AUDITORS' REPORT

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

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, 2012, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2012. 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, 2012, and the results of its operations for the fiscal year ended June 30, 2012, 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 January 25, 2013 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.

Christy White Associates

San Diego, California
January 25, 2013

FINANCIAL SECTION

**MEASURE E BOND BUILDING FUND
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2012**

ASSETS	
Cash in county treasury	\$ 58,044,355
Accounts receivable	113,995
	<hr/>
Total Assets	\$ 58,158,350
	<hr/>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 2,265,482
	<hr/>
Total Liabilities	2,265,482
	<hr/>
Fund Balance	
Restricted for capital projects	55,892,868
	<hr/>
Total Liabilities and Fund Balance	\$ 58,158,350
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The accompanying notes to financial statements are an integral part of this statement.

**MEASURE E BOND BUILDING FUND
 BEVERLY HILLS UNIFIED SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Fiscal Year Ended June 30, 2012**

REVENUES	
Interest income	\$ 554,091
Total Revenues	<u>554,091</u>
EXPENDITURES	
Facilities acquisition and construction	<u>7,821,742</u>
Total Expenditures	<u>7,821,742</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,267,651)
OTHER FINANCING SOURCES	
Interfund transfer in	<u>2,500,000</u>
Net Change in Fund Balance	(4,767,651)
Fund Balance, July 1, 2011	<u>60,660,519</u>
Fund Balance, June 30, 2012	<u>\$ 55,892,868</u>

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

**MEASURE E BOND BUILDING FUND
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Beverly Hills Unified School District (the “District”) was established in 1935. The District serves approximately 4,679 students in four elementary schools (grades K-8), one high school (grades 9-12), 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 (Education Code Section 15278(b)) 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
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

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 the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. 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
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

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.

H. Fund Balance

Under GASB Statement No. 54, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The fund balance of the Measure E Bond is considered restricted.

The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

**MEASURE E BOND BUILDING FUND
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as cash in county treasury for \$58,044,355.

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
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

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 \$58,222,272 and an amortized book value of \$58,044,355. The weighted average maturity for this pool as of June 30, 2012 was 617 days.

**MEASURE E BOND BUILDING FUND
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

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 \$113,995 as of June 30, 2012 consists of interest earned on the District's investment in the County Treasury.

NOTE 4 – INTERFUND TRANSFER

The interfund transfer consisted of \$2.5 million transferred to the bond building fund from the general fund. The transfer represents an action taken by the District's Board of Education during its regularly scheduled meeting on January 10, 2012, to transfer a portion of cash received from a negotiated settlement to the bond fund. The transfer was in accordance with the Board's recommendation to fully reimburse Measure E for all legal and related outside consultant fees from present and future recoveries. The settlement occurred with a vendor that performed construction work for the District. The settlement gave to the District \$5 million in cash plus equipment credits.

NOTE 5 – CONSTRUCTION COMMITMENTS

The Measure E Bond Building Fund had no construction commitments as of June 30, 2012.

**MEASURE E BOND BUILDING FUND
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 6 – MEASURE E GENERAL OBLIGATION BONDS

As of June 30, 2012, 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, 2011	Additions	Deletions	Outstanding June 30, 2012
Series 2009	1/6/2009	2.50% - 5.00%	8/1/2033	\$ 72,044,664	\$ 77,937,044	\$ 4,041,776	\$ -	\$ 81,978,820

*Interest rates affect the current interest bonds of the Series 2009 issuance. The capital appreciation bonds accrete interest as reflected in the current year addition to long-term debt. The combined yield of all Series 2009 bonds ranges from 2.0% - 6.36%.

Election of 2008, Series 2009

On January 6, 2009, Series 2009 bonds of the Measure E bond authorization were issued, which consisted of \$12,460,000 of current interest bonds and \$59,584,664 of capital appreciation bonds with an initial total par amount of \$72,044,664, with stated interest rates of 2.50% to 5.0%, a combined yield of 2.0% to 6.36% and maturing through August 1, 2033.

The annual requirements to amortize all Measure E general obligation bonds payable outstanding as of June 30, 2012, are as follows:

Year Ended	Principal*	Interest	Total
June 30,			
2013	\$ -	\$ 534,463	\$ 534,463
2014	-	534,463	534,463
2015	350,000	534,463	884,463
2016	760,000	525,713	1,285,713
2017	1,175,000	504,813	1,679,813
2018-2022	11,809,424	4,150,639	15,960,063
2023-2027	16,877,405	26,122,595	43,000,000
2028-2032	28,340,385	71,159,615	99,500,000
2033-2034	12,732,450	44,267,550	57,000,000
Total	\$ 72,044,664	\$ 148,334,314	\$ 220,378,978

* Principal excludes \$9,934,156 of accreted interest as of June 30, 2012.

**MEASURE E BOND BUILDING FUND
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

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, 2012:

Expenditures by Object	Amount	Percent
Classified salaries	\$ 360,926	4.6%
Employee benefits	115,435	1.5%
Books and supplies	9,049	0.1%
Services and other operating expenditures	2,247,049	28.7%
Capital outlay	5,089,283	65.1%
Total	<u>\$ 7,821,742</u>	<u>100.0%</u>

NOTE 8 – MEASURE E EXPENDITURES BY PROJECT

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2012:

School Site	Amount	Percent
Beverly Vista School	\$ 240,067	3.1%
El Rodeo School	516,611	6.6%
Hawthorne Elementary School	830,282	10.6%
Horace Mann School	1,649,410	21.1%
Beverly Hills High School	1,690,393	21.6%
Facilities and planning*	955,945	12.2%
Legal fees**	1,939,034	24.8%
Total	<u>\$ 7,821,742</u>	<u>100.0%</u>

**Program administration as presented in the prior year has been included in facilities and planning.*

*** Legal fees are related to litigation against Strategic Concepts and legal matters related to the MTA's proposal impacting Beverly Hills High School.*

**MEASURE E BOND BUILDING FUND
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 9 – COMMITMENTS AND CONTINGENCIES

During the 2011-12 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. On January 5, 2012, Strategic Concepts' owner, Karen Christiansen was found guilty by jury of four felony conflict of interest charges. Christiansen was ordered by the court to pay over \$2.0 million in restitution to the District and is in the process of appealing the verdicts.

As of June 30, 2012, 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 pending.

**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

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John Dominguez, CPA, CFE

Heather Daud

Michael Ash, CPA

Erin Sacco Pineda, CPA

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

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, 2012, and have issued our report thereon dated January 25, 2013. 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.

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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 #2012-1 Financial Audit Finding that we consider to be a significant deficiency 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.

Christy White Associates

San Diego, California

January 25, 2013

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

**MEASURE E BOND BUILDING FUND
BEVERLY HILLS UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Management's Responses
For the Fiscal Year Ended June 30, 2012**

#2012-1 FINANCIAL AUDIT FINDING: EXPENDITURE INTERNAL CONTROLS

Criteria: Purchase orders should document all expenditure payments in advance of the related invoice date in order to ensure proper authorization and encumbrance of funds in advance of the obligation of funds to the vendor.

Condition: We identified the following deficiencies in the District's internal controls over Measure E Bond Program expenditures:

- 18 of 76 expenditures tested in fiscal year 2011-12 had a purchase order dated subsequent to the invoice date, indicating a breakdown of the formal approval process established by District policy. We note, however, that all exceptions were board approved and most had contracts in place prior to the date of service.

Cause: An internal control weakness exists with regard to internal controls over purchasing. Purchase orders are not consistently approved prior to the receipt of invoices.

Effect: The normal purchasing approval process is not consistently followed, which could result in the obligation of funds without sufficient approval or available budget.

Context: Through our testing of 76 expenditures, we noted that 18 expenditures were not encumbered in the form of a purchase order prior to the obligation of funds to the related vendor.

Recommendation: We recommend that purchase orders be created prior to Measure E expenditures to document authorization for expenditures and to properly encumber funds.

Management's Response: The administration recognizes that purchase orders assist in tracking expenditure payments within appropriation limits and also recognize the contracts that may continue over multiple years create a challenge. All contract approvals are obtained in advance of invoicing as was noticed in this finding on internal controls. A new procedure will be used to request a purchase order prior to the issuance of the Notice to Proceed to maintain proper timing.

**MEASURE E BOND BUILDING FUND
 BEVERLY HILLS UNIFIED SCHOOL DISTRICT
 Summary Schedule of Prior Audit Findings
 For the Fiscal Year Ended June 30, 2012**

<u>Finding Number</u>	<u>Description</u>	<u>Current Status</u>
#2011-1 Financial Audit Finding	<u>Expenditure Internal Controls</u> We identified internal control deficiencies and areas for improvement regarding expenditures of Measure E funds including purchase orders dated after the applicable invoice date, expenditures miscoded to an incorrect/non-specific location code, expenditures with no purchase order in place, and expenditures with insufficient billing detail.	Partially Implemented, see Finding #2012-1.
#2011-2 Financial Audit Finding	<u>Financial Audit Finding: Expenditure Itemized Detail</u> One (1) of 91 expenditures sampled was not documented with sufficient itemized detail to enable reconciliation of amount billed to services performed.	Implemented.