

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
2003 MEASURE A GENERAL OBLIGATION BOND FUND
AGREED-UPON PROCEDURES REPORT

JUNE 30, 2007



INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES

Board of Trustees and
Citizens' Bond Oversight Committee
San Francisco Unified School District

We have performed the agreed-upon procedures, which were agreed to by the management of the San Francisco Unified School District (the District) and the Citizens' Bond Oversight Committee of the San Francisco Unified School District (the Committee), to review expenditures of the 2003 Measure A General Obligation Bond Fund (the Fund), covering a minimum of 70% of the total Fund expenditures for the year ended June 30, 2007, for the purpose of verifying if the use of the funds is within the scope of the published election materials specifying the intended use of bond proceeds. We used the election documents and District resolutions as the guidance for the intended use of the bond proceeds. Management of the District and the Committee are responsible for the compliance with the election documents and District resolutions. This engagement to perform agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and to meet the compliance requirements to perform a "performance audit" as referred to in Proposition 39 and outlined in Subparagraph (C) of paragraph (3) of subdivision (b) of section 1 of Article XIII A of the California Constitution. The sufficiency of these procedures is solely the responsibility of those specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Financial Summary

1. The 2003 Measure A General Obligation Bonds were authorized by an election of the registered voters of the San Francisco Unified School District held on November 4, 2003. The total amount authorized was \$295,000,000. The proceeds are to be used for the financing of site improvements and modernization of school facilities. The first series of the bonds were issued on October 19, 2004 in the amount of \$58,000,000. The second series of the bonds were issued on October 12, 2005 in the amount of \$130,000,000. The third series of the bonds were issued on October 12, 2006 in the amount of \$92,000,000.
2. Total expenditures for the year ended June 30, 2007, were \$72,025,702.

Agreed Upon Procedures Performed

1. Verify that the expenditures of funds were accounted for separately in the accounting records to allow for accountability.
2. Verify that the net funds from the sale of the 2003 Measure A General Obligation Bonds were deposited in total into the District's accounts by obtaining the settlement statement for the new bond issue and verifying that the amounts were appropriately deposited into the building and debt service funds, as required.
3. Test expenditures covering a minimum of 70% of the total capital project expenditures, exclusive of issuance costs and transfers out.
 - a. Select all non-salary expenditure transactions \$100,000 and over and determine that expenditure purpose as indicated on invoices or supporting documentation was for purposes specified to the registered voters of the District through election materials.
 - b. Select all salary transactions and determine based on personnel or payroll records and time sheets, and interview current employees to determine that amounts expended were in support of the Measure A General Obligation Bond Fund and not for District general administration or operations.
 - c. Select, on a systematic basis, 50 non-salary expenditure transactions and determine compliance with the following District procedures for documentation and approvals:

Project Initiation.

1. An Initiate a Contract Action (ICA) was present.
2. The ICA contains:
 - a. Contract or Order for Service number (OSW).
 - b. Project number.
 - c. Description of scope of work.
 - d. Initialed and dated prior to Budget Director approval.
 - e. Signatures of Project Manager, Bond Program Manager, Budget Director, Chief Facilities Officer, Director of Fiscal Services.
 - f. Funding sources.
3. Contract, OSW number agrees with Bond Financial Analyst log.
4. Contract, OSW number and amount agrees with Project Tracking System (MBSR).
5. ICA amount agrees with amount entered into People Soft Budget System (GL).

Purchase Order Issuance.

1. Purchase order agrees to ICA for Vendor, Amount, Scope of Work, and account code.
2. Purchase order signed by Chief Financial Officer.
3. Purchase order signed by Vendor if other than Contract.

Contracts and Bids.

1. For contracts greater than \$15,000:
 - a. Contract was bid.
 - b. Board Resolution attached to ICA.
 - c. Contract present.
 - d. Notice to Proceed present.
 - e. SACS coding on ICA agrees with Board Resolution.

Payments.

1. Invoices are:
 - a. Stamped with date received.
 - b. Contract and project number agrees with ICA.
 - c. Approved by Project Manager, Bond Program Manager, Bond Financial Analyst and Director of Fiscal Services.
 - d. Bond Program Financial Analyst calculation of amount to be paid and retained present (or stamped "No Retention").
 - e. Accounting receipt number entered.
 - f. Agrees to Receipt Record.
 - g. Agrees to Project Tracking System (MBSR).

Project Tracking System (MBSR) Reporting.

1. Agrees to Receipt Record.
2. Agrees to Financial System.

Direct Payments.

1. The requisition form is present with signatures of Project Manager and Director of Budget Office.
2. The amount and the SACS code on the requisition form agrees to the General Ledger.
3. Invoice amount agrees to the payment amount.
4. Invoice or requisition description appear to be within purpose of Bond election document.

Results of Procedures

1. The 2003 Measure A General Obligation Bond Fund expenditures were accounted for separately in the resource 90390 of the Building Fund of the District.
2. The \$92 million net proceeds from the sale of the general obligation bonds were deposited into the appropriate sub fund 21 accounts within the Building Fund. Issuance costs of \$611,800 were paid for by premium of \$3,182,253 and the residual premium was properly deposited into the Bond Interest and Redemption (BIR) fund.
3. We examined expenditures aggregating \$52,906,872 which is 73% of the \$72,025,702 total Measure A Bond expenditures for the year ended June 30, 2007. The amounts examined were as follows:

Non-salary transactions (50 transactions)	\$ 648,600
Non-salary transactions above \$100,000	51,143,628
Salary transactions	<u>1,114,644</u>
Total	<u>\$ 52,906,872</u>

Our procedures:

- a. Did not identify any internal control exception as described on section three of the agreed upon procedures as follows:

Non-salary transactions (50 transactions)	\$ 648,600
Non-salary transactions \$100,000 and above	<u>20,786,493</u>
Total	<u>\$ 21,435,093</u>

- b. Did not identify any expenditure transactions that were paid from the Measure A Bond proceeds that did not comply with the intended use of bond proceeds approved by the voters of the District on November 4, 2003.
- c. Did not identify any salary expenditures that were not in support of the Measure A Bond Fund nor were any expenditures identified that were in support of general administration or operations.
- d. Did not identify instances of non-compliance with District procedures except as follows:

Criteria or Specific Requirements

All material liabilities are to be accrued in the unaudited actual financial reports at year end.

Condition

Normally, invoices are received and processed by accounting well before the cut-off date. However, the District received invoices near the end of August from a vendor for bond construction related activities that was not approved and forwarded to accounting until after the cutoff. The amounts were properly recorded included in the audited financial statements through an audit adjustment.

Questioned costs

None.

Context

Invoices from vendors for goods or services received by the end of the fiscal year are normally received by the District after the June 30th. Many of the invoices are received by departments or programs responsible for approving the payment. After approval, the invoices are forwarded to accounting who accrues the liability at year end. In order to meet state reporting deadlines for submitting the unaudited actual financial report it is necessary for accounting to establish a cut-off date for which further transactions cannot be processed. If invoices relating to June 30th are received after this cut-off date they are noted and made available for audit adjustment if material.

Effect

The 2003 Measure A Bond fund trial balance were misstated by \$639,198.

Cause

Late submission of invoices from vendors. No procedures to detect material expected invoices that have not been received prior to the accounting cutoff for year end reporting on the District unaudited financial statements. This is not considered an internal control deficiency because accounting is aware of invoices that were not able to be accrued and can communicate the need for an adjustment in the audited financial statements.

Recommendation

To improve the reporting of the unaudited financial statements we recommend that departments or programs who routinely receive invoices in material amounts, such as the bond program, develop a tracking system at year end to identify expected invoices from vendors who routinely invoice monthly or have performed services under purchase orders for large amounts.

District Response

The District concurs with the recommendation of the auditors. Our staff will work with the bond program personnel and other departments or programs to make sure a tracking system for large amounts at year end is in place so that all material invoices are identified and accounted for. Prior to the cut-off date accounting staff will request department personnel to submit their report.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Trustees and the Committee and is not intended to be and should not be used by anyone other than those specified parties.

VANMEK, TRINE, DAY & Co. LLP.
Palo Alto, California
March 18, 2008