

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
2003 MEASURE A GENERAL OBLIGATION BOND FUND
PERFORMANCE AUDIT REPORT

JUNE 30, 2010



Board of Education and
Citizens' Bond Oversight Committee
San Francisco Unified School District
San Francisco, California

We have conducted a Performance Audit of San Francisco Unified School District 2003 Measure A Bond Fund as described in the scope below in accordance with our Engagement Letter dated December 1, 2010.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. 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 Objectives, Scope, and Criteria of the Performance audit are described below.

Objective:

To conduct a performance audit to ensure that the funds have been expended only on the specific projects listed in the 2003 Measure A and not for any other purpose, including teacher and administrator salaries and other school operating expenses as required by Subparagraphs (C) and (A) of paragraph (3) of subdivision (b) of section 1 of Article XIII A of the California Constitution respectively. To determine compliance with the District Facility Department internal control procedures described below.

Scope:

Examine expenditures of the 2003 Measure A General Obligation Bond Fund (the Fund), covering a minimum of 70% of the total Fund expenditures, exclusive of issuance costs and transfers out, for the year ended June 30, 2010, 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 by:

Selecting all vendors with current year expenditures of \$100,000 and over and select all non-salary expenditure transactions of \$100,000. For vendors with no individual expenditure transactions of \$100,000 and over, select the largest transaction. For items selected, determine that the expenditure purpose, as indicated on invoices or supporting documentation, was for purposes specified to the registered voters of the District through election materials.

Selecting all salary transactions and determine, based on our review of personnel and payroll records and time sheets, and interviews of current employees, that amounts expended were in support of the 2003 Measure A General Obligation Bond fund and not for District general administration or operations.

Examine compliance with District internal control procedures by:

Verifying that the expenditures of funds were accounted for separately in the accounting records to allow for accountability.

Verifying 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 issues and verifying that the amounts were appropriately deposited into the building and debt service funds, as required.

Verifying that contractor retention release payments are disbursed in accordance with District retention release procedures by selecting all releases \$100,000 and over and judgmentally selecting releases under \$100,000 from the District's retention liability account for a minimum of 70% of the total amount released.

Selecting all vendors and on a systematic basis, select one non-salary expenditure transaction from each vendor. From vendors selected, 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, Bonds Program Manager, Budget Director, Chief Facilities Officer, Director of Fiscal Services, Certified Payroll Manager, and Director of Contracts Office.
 - f. Funding sources.
3. Contract, OSW number agrees with Bonds 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 Facilities 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, Bonds Program Manager, Bonds Financial Analyst and Director of Fiscal Services.
 - d. Bonds 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 appears to be within purpose of Bonds election document.

Release of Retentions (Close out Procedures).

1. The close out checklist has been completed.
2. All required signatures have been obtained.
3. All required documentation is present.
4. Retention amount is clerically accurate.
5. Payee is correct.

Criteria:

Published 2003 Measure A Bond Election Materials.
District Facilities Procedures

Methodology:

Our methodology, including the procedures identified above, was designed to obtain sufficient, appropriate and relevant evidence to the extent necessary to address objectives of the engagement stated above, reduce the audit risk to an acceptable level, and provide reasonable assurance that our findings and conclusions are properly supported.

Results of Procedures:

Accounting for Transactions

The 2003 Measure A General Obligation Bond Fund expenditures were accounted for separately in the resource 90390 of the Building Fund of the District. There was no current year sale of bonds.

Retention Releases

We examined releases from retentions held by the District of \$513,541 which is 72.7% of the \$706,112 total 2003 Measure A retentions released during the year ended June 30, 2010. Although not held by the District, we also examined \$7,664,732 of releases of retention held in escrow accounts for a judgmental sample of projects for 3 of 6 vendors. We did not identify any instances of non-compliance with District procedures.

Transactions Examined

We examined expenditures aggregating \$16,609,111 which is 74.4% of the \$22,313,503 total 2003 Measure A Bond expenditures, for the year ended June 30, 2010. The amounts examined were as follows:

Examined as to purpose:

Non-salary transactions above \$100,000							\$ 8,671,546
Non-salary transactions below \$100,000							507,456
Salary transactions							406,404
Total							9,585,406

Examined for purpose and compliance with District procedures:

Non-salary transactions above \$100,000							5,165,123
Non-salary transactions below \$100,000							1,858,582
Total							7,023,705
						TOTAL EXAMINED	\$ 16,609,111

We did not identify any expenditure transactions that were paid from the 2003 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.

Project Expenditures

We did not identify any expenditure transactions that did not comply with the 2003 Measure A intended use of bond proceeds approved by the voters of the District on November 4, 2003.

Salary and Operating Expenditures

We did not identify any salary expenditures that were not in support of the 2003 Measure A Bond nor were expenditures identified that were in support of District general administration or operations. The salaries of personnel working on both the 2003 Measure A Bond and 2006 Measure A Bond are allocated based on the ratio of the bond's respective non-salary expenditures in accordance with District policy.

During our interviews we noted one employee, paid 100% from the Bond Fund, who would periodically assist another employee in a similar District position. As in the prior year, the employee not paid by the Bond Fund assisted in Bond Fund functions. We expanded our procedures and were able to determine that amount charged to the Bond Fund for the salaries and benefits of the time the two employees spent on Bond Functions was reasonable. We repeat our recommendation from the prior year to require time sheets for employees not 100% chargeable to the Bond Fund. See Prior Year Recommendations below.

Compliance with District Facilities Procedures

As indicated in the Scope, the compliance testing was limited to the District Facilities Procedures and not to the internal controls of the District as a whole. For purposes of this report, deficiencies are defined as follows:

A control deficiency in a district's internal control over compliance 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 noncompliance with a type of compliance requirement of a program on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a program will not be prevented or detected by the District's internal control.

We did not identify instances of deficiencies or non-compliance with District Facilities Department procedures tested.

Prior Year Recommendations.

We recommended that the District remove the charges for exterior painting of \$27,930 and security cameras of \$48,224 from the Bond Fund and consider charging the Bond Fund for the Lopez settlement monitoring expenses during the 2009-10 fiscal year.

Status: Implemented.

We recommended that the current requirement for all transactions to be approved by the Bond Fund management be reviewed to determine whether the procedures should be modified to exclude transactions initiated by other Departments or, alternatively, require Bond Fund management approvals in accordance with current procedures.

Status: Implemented. Management determined that transactions requested by Bond Fund management and initiated by other Departments continue to be accepted based on other Department approval procedures. Management is continuing to monitor the transactions to determine whether changes in procedures are warranted.

We recommended that employees assigned to the Bond Fund maintain a log of their time spent on non Bond functions and that employees not assigned to the Bond Fund maintain a log of their time spent on Bond functions. The log should be approved monthly by management of those Departments.

Status: Not implemented. The District has provided the following response for procedures to document employee time in fiscal year 2010-11 and following. We have not audited the implementation of the procedures and, accordingly, do not offer an opinion on the response.

District Response:

We will implement a time study of employees that work less than full time for the Bond Funds and perform bond related functions. The time study will consist of employees logging in their time while performing duties for the Bond Fund. We will perform a six-week analysis as a basis to determine the average time spent in fiscal year 2010-11. Moving forward on a semi-annual basis, we will perform in the fall and spring a time study that consists of a four-week period. The data obtained from the time study will be the basis for determining the FTE allocation associated with bond functions. For employees that work full time for the Bond Funds and only perform bond related functions, we will request an annual certification by the employee and responsible official.

VAVRNEK, TRINE, DAY & CO., LLP

Palo Alto, California
April 11, 2011