

EAST SIDE UNION HIGH SCHOOL DISTRICT

**200⁸ MEASURE E
GENERAL OBLIGATION BOND FUND
PERFORMANCE AUDIT REPORT**

FOR FISCAL YEAR ENDED JUNE 30, 2010



Board of Trustees And
Citizens' Bond Oversight Committee
East Side Union High School District

We were engaged to conduct a Performance Audit, subject to the terms of our engagement letter dated July 27, 2010.

We have conducted a Performance Audit of East Side Union High School District (the District) General Obligation Bond Fund (the Fund) as described in accordance with our Engagement Letter.

We conducted our performance audit in accordance with 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 conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

Our audit was limited to the objectives listed below which includes determining the District's compliance with the performance requirements as referred to in Proposition 39 and outlined in Article XIII A, Section 1(b)(3)(C) of the California Constitution. Management is responsible for the District's compliance with those requirements.

In planning and performing our performance audit, we obtained an understanding of the District's internal control in order to determine if the internal controls were adequate to help ensure the District's compliance with the requirements of Proposition 39 as outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

The results of our tests indicated that the District expended Measure E General Obligation Bond funds only for the specific projects approved by the voters, in accordance with Proposition 39 and outlined in Article XIII A, Section 1 (b)(3)(C) of the California Constitution.

Authority for Issuance

The Measure E Bonds were issued pursuant to the Constitution and laws of the State of California (the State), including the provisions of Chapters 1 and 1.5 of Part 10 of the California Education Code, and other applicable provisions of law. The Bonds were authorized to be issued by a resolution adopted by the Board of Supervisors of the County (the Resolution), pursuant to a request of the District made by a resolution adopted by the Board of Education of the District.

The District received authorization at an election held on February 5, 2008, to issue bonds of the District in an aggregate principal amount not to exceed \$349,000,000 to finance specific construction and renovation projects approved by eligible voters within the District. The proposition required approval by at least 55 percent of the votes cast by eligible voters within the District.

Purpose of Issue

The net proceeds of the Bonds and any other series of general obligation bonds issued under the Authorization will be used for the purposes specified in the District bond measure submitted at the Election, which include modernization and construction of facilities at various sites within the District.

Objective of the Audit

1. Determine whether expenditures charged to the Bond Fund have been made in accordance with the bond project list approved by the voters through the approval of Measure E.
2. Determine whether salary transactions charged to the Bond Fund were in support of Measure E and not for District general administration or operations.

Scope

The scope of our performance audit covered the period of July 1, 2009 to June 30, 2010. The population of expenditures tested included all object and project codes associated with the bond projects. The propriety of expenditures for capital projects and maintenance projects funded through other State or local funding sources, other than proceeds of the bonds, were not included within the scope of the audit. Expenditures incurred subsequent to June 30, 2010 were not reviewed or included within the scope of our audit or in this report.

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.

Criteria

1. Published Bond Election Materials.
2. District Facilities Procedures.

Procedures Performed

We obtained the general ledger and the project expenditure reports prepared by the District for the fiscal year ended June 30, 2010 for the Bond Fund. Within the fiscal year audited, we obtained the actual invoices and other supporting documentation for a sample of expenditures to ensure compliance with the requirements of Article XIII A, Section 1 (b)(3)(C) of the California Constitution and Measure E as to the approved bond projects list. We performed the following procedures:

1. We selected a sample of expenditures for the period starting July 1, 2009 and ending June 30, 2010, and reviewed supporting documentation to ensure that such funds were properly expended on the specific projects listed in the ballot text.
2. Our sample totaled \$18,842,937. This represents 96% of the total expenditures of \$21,350,687.
3. We verified that funds were expended for the purposes specified in Measure E and in Article XIII A, Section 1 (b)(3)(C). In addition, we verified that funds held in the Bond Fund were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

Audit Results

The results of our tests indicated that, in all significant respects, the East Side Union High School District has properly accounted for the expenditures held in the Bond Fund and that such expenditures were made for authorized Bond projects. Further, it was noted that funds held in the Bond Fund, and expended by the District, were used for salaries of administrators only to the extent they perform administrative oversight work on construction projects as allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

We also identified the following significant internal control deficiencies related to effectiveness and efficiency of operations as detailed in the improvement opportunities below:

Reimbursement of incurred costs

In addition to the fees paid for construction management services, the District has been billed for additional incurred costs by the contractor. These costs include but are not limited to the following:

- Travel costs, including mileage and per diem charges
- Communication costs including cell phone and internet usage charges
- Food and beverages

The existing contract allows for reimbursement of additional incurred costs to the extent they are considered ordinary and necessary. However, the current contract language lacks specificity as to both the nature and the amount of such charges that are allowed to be reimbursed. In prior years we noted that such costs were routinely approved as allowable costs and were reimbursed by the District. During our testing of contract billings, we noted evidence of District approval of such costs.

We noted in the current year that current management staff has interpreted the contract terms, as they relate to such expenditures, in a much more restrictive manner. Certain expenses that had been reimbursed in the past are now being considered to be either excessive or otherwise not ordinary and necessary expenses and, therefore, are no longer being approved for reimbursement.

Recommendation – We believe it is necessary that the contract language in respect to reimbursement of these types of expenses needs to be modified to clear up any ambiguity that may exist over what constitutes an incurred cost on the part of the contractor that is reimbursable, versus one that is not.

We have not noted any impropriety on the part of either management or the contractor with respect to this issue. This is simply a matter that needs to be dealt with in the contract so that future disputes will be avoided.

Reporting Views of Responsible Officials

Management concurs with the audit results. To achieve these ends, we will institute specific policies, procedures and other internal controls to ensure accurate and clear contract terms. Management agrees that we will develop an action plan to address the deficiencies identified in this report.

This report is intended solely for the information and use of the Board of Trustees and the East Side Union High School District Citizen's Bond Oversight Committee and is not intended to be and should not be used by anyone other than those specified parties.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
February 15, 2011