

**AGENDA**  
**Board Audit Committee**  
9:00 AM  
June 11, 2011  
Superintendent's Conference Room  
East Side Union High School District Education Center  
830 North Capitol Avenue  
San Jose, CA 95133-1398

*In compliance with the Americans with Disabilities Act, if you need special assistance, disability-related modifications or accommodations, including auxiliary aids or services, in order to participate in the public meeting of the Audit Committee, please contact the office of the District Superintendent at (408) 347-5011. Notification 72 hours prior to the Regular Meeting will enable the District to make reasonable arrangements to ensure accommodation and accessibility to this meeting. Upon request, the District shall also make available this agenda and all other public records associated with this meeting in appropriate alternative formats for persons with a disability.*

1. **Call to Order/Roll Call**

2. **Introductions**

3. **Adopt Agenda**

4. **Special Order of Business**

*Individuals may be permitted to present an item out of order on the agenda to accommodate their schedules.*

5. **Public Comments**

*Members of the public may address the Audit Committee on any subject not on the agenda; however provisions of the Brown Act (Government Code 54954.2(a) and .3) preclude any action. As a unagendized item, no response is required from the Audit Committee or district staff and no action can be taken; however the Board may instruct the Chair to agendize the item for a future meeting.*

6. **Approval of Minutes**

**Action:** Minutes from the April 16, 2011 meeting will be presented for approval.

7. **Discussion/Action: FCMAT Report: Update the status of all actions taken in response to the FCMAT Report recommendations**

Ian Marsh will review all actions taken by the Board and the Administration in response to the recommendations included in the FCMAT Report including #14, a review of Administrative Regulations related to adequate billing documentation

8. **Discussion/Action: Receive Measure G & E General Obligation Bond Fund Performance Audit Reports for Fiscal Year Ended June 30, 2010**

Ahmad Gharaibeh, External Auditor, presented this audit's findings at the April 16, 2011 meeting. The Board at its April 21, 2011 meeting accepted the audit. Superintendent Dan Moser will update the committee as to how the audit's findings are being addressed by the administration

9. **Discussion/Action: Audit Work Plan Report**

Ian Marsh will report on the status of projects included in the Board approved Audit Work Plan.

**10. Discussion/Action: Legal Expenditures**

Ian Marsh will report on his work-to-date regarding the following:

- A. Legal costs, any duplication of services
- B. Policies and Administrative Regulations for the authorization of legal expenditures
- C. The relationship between attorneys appointed by the self-insurance Joint Powers Agreement (JPA) and our district counsel.

**11. Discussion/Action: Possible recommended addition to Internal Auditor's work plan**

Possible recommendation from the Audit Committee to the Board to include in the Internal Auditor's work plan a review of policies and administrative regulations that relate to cash handling; specifically fundraising and field trips

**12. Discussion/Action: Carnival policies and related issues**

Superintendent Dan Moser will report on the current Board policy related to the authority to authorize a "Carnival" and the development of an administrative regulation that includes certificate of insurance requirements for liability and workers compensation.

**13. Discussion/Action: 2009/10 East Side Union High School District Audit**

Ahmad Gharaibeh, External Auditor, will report on the status of the 2009/10 external audit.

**14. Discussion/Action: Report on GASB 54 accounting requirements**

Ahmad Gharaibeh, External Auditor, will report on GASB 54 requirements

**15. Discussion/Action: E-RATE Reimbursement for 2008**

Superintendent Dan Moser will brief the committee on the current status of the E-RATE reimbursement.

**16. Discussion/Action: Status of Special Education IEP's**

Superintendent Moser will report on the status of the District's efforts to comply with Individual Education Plan (IEP) requirements for Special Education students.

**17. Discussion/Action: Annual Review of Audit Committee Charter**

Section V, Self-Assessment, requires the annual review of the charter. The committee will determine the means and time-line to conduct such a review.

**18. Informational: Brown Act Instruction**

Under Section IV, Duties and Responsibilities, the charter requires that Audit Committee members receive training and comply with the Brown Act.

**19. Discussion/Action: Establish Next Two Meeting Dates**

**20. Superintendent Communications/Comments**

**21. Audit Committee Member Comments**

Individual Audit Committee members may report on programs, conferences, meetings attended and/or items of interest to the public. An Audit Committee member may wish to express a concern or observation about a topic not appearing on the agenda, or request items to be scheduled on a future agenda.

**22. Adjournment**

# EAST SIDE UNION HIGH SCHOOL DISTRICT

## Minutes of Meeting

**Item 6**

### Unapproved

#### Board Audit Committee

April 16, 2011

9:00 a.m.

East Side Union High School District  
Education Center

Superintendent's Conference Room  
830 Capitol Avenue San Jose, CA 95133-1398

#### 1. Call to Order /Roll Call

*The meeting was called to order by Chair Frank Biehl at 9:00 a.m. Present were Vice Chair Martinez-Roach, Member Berg, Member Neighbors and Member Juchau. Alternate Member Gonzalez was absent (excused).*

*Staff members in attendance were:*

- Dan Moser
- Ian Marsh
- Hardy Childers
- Mary Guillen

*Presenter:*

- Ahmad Gharaibeh, External Auditor

*Members of the public in attendance were:*

- Bill Masching
- Bob Nuñez
- Jon Reinke

#### 2. Introductions: Chairman Frank Biehl will announce newly appointed or reappointed members.

*Chair Biehl announced that Member Dan Juchau was reappointed for a two-year term and Member Gustavo Gonzalez was appointed to a one-year term as the Alternate Member.*

*Persons present at the meeting introduced themselves.*

#### 3. Adopt Agenda

*Motion by Member Berg, second by Member Neighbors, to approve the agenda as presented.*

*Vote: 5/0*

**4. Special Order of Business**

Individuals may be permitted to present an item out of order on the agenda to accommodate their schedules.

*There was no change to the order of items on the agenda.*

**5. Public Comments**

Members of the public may address the Audit Committee on any subject not on the agenda; however, provisions of the Brown Act (Government Code 54954.2(a) and .3) preclude any action. As a unagendized item, no response is required from the Audit Committee or district staff and no action can be taken; however, the Board may instruct the Chair to agendize the item for a future meeting.

*There were no comments from the public.*

**6. Report:** Counsel opinion re: Does the Charter permit a school Board member from a feeder school district to sit on the Audit Committee?

*Chair Biehl shared with the Committee a legal opinion by District's Counsel. Counsel reviewed the Charter and there is no conflict of interest for Member Neighbors to serve on the ESUHSD Audit Committee during his term as a Board Member with the Berryessa School District.*

**7. Approval of Minutes**

**Action:** Minutes from the December 11, 2010, meeting will be presented for approval.

*Motion by Member Juchau, second by Member Neighbors, to approve the amended minutes as follows:*

*Page 9: Special Projects – change word “enormous” to “anomalous”*

*Vote: 4/0; Member Martinez-Roach abstained from vote because she was not a member of the Committee when this meeting was conducted on April 16.*

**8. Discussion/Action: FCMAT Report: Update the status of all actions taken in response to the FCMAT Report recommendations**

Ian Marsh and Hardy Childers will review all actions taken by the Board and the Administration in response to the recommendations included in the FCMAT Report.

*Internal Auditor Marsh provided an update regarding the status and actions taken in response to the FCMAT report recommendations. He explained an Excel spreadsheet that was as a result of the Santa Clara County Office of Education's assessment regarding the status of corrective action taken. The chart has yellow and green color coding; yellow signifies "open items" and green signifies "fully or mostly compliant."*

*#2: Amend Administration Regulation #3323*

*Under SCCOE comment: Consulting Services -- The Government Code was not addressed in the new Administrative Regulation, which was prepared by staff.*

*The new Administration Regulation does include language regarding such services. He feels that the District is fully compliant on this item.*

*#5: Require evidence that a conflict of interest statement has been submitted for each consultant contract being considered for approval.*

*Comment: Please advise if the conflict of interest statement was developed by an attorney and submit completed forms when received.*

*This has been done. The form was developed by Counsel Rogelio Ruiz and will be provide to SCCOE staff prior to the May 4 meeting between ESUHSD and SCCOE reps. The district is fully compliant on this item.*

*#8: Submit all contract extensions for Board approval*

*Comment: All contract extensions were not covered in the Administrative Regulation.*

*A response from Procurement has been requested. To-date, no response has been provided. This item is still open, but will be resolved in advance of the meeting with SCCOE.*

- #13: Review the process utilized to hire the consultant whose payments were made under the purchase order of a different consultant and determine whether these services were authorized.

*This has been an ongoing issue with FCMAT. Internal Auditor Marsh has been trying to find out which consultant and subconsultant they are referring to. He is in contact with a Senior FMCAT staff person who has promised to follow up at their end. Jim Ceretta who performed the audit is no longer with FCMAT. The District cannot adequately respond to the comment unless the District knows who are the consultant and subconsultant.*

- #14: Require all vendors to provide detailed invoices that include specific dates and hours per day of service, detailed by the person providing the service, with the underlying facility project identified with each charge.

*Staff from the SCCOE came and reviewed a number of invoices. On this particular one, they feel that the underlying documentation for billings by one consultant was insufficient. In particular, we are being billed lots of dollars and the County's expectation of the consultant is that they are expecting to see who worked on the assignment, hours worked and their billing rates.*

*Internal Auditor Marsh has met with Facilities staff and they have provided documentation to him. Facilities staff feel that since the billing is specified in the contract, it is sufficient information. Internal Auditor Marsh feels there is insufficient information in the documentation he reviewed. This relates, specifically, to billings by Blach. He feels that the District should have minimum documentation requirements. Most of the consultants provide the information and he is not sure why Blach does not. He has a copy of the architectural services agreement and is currently reviewing the document.*

*Blach identifies the major category of the work by preconstruction. They identify the amounts that have been billed to-date. They identify what is left to be spent. The District does not have the names of the individuals that performed the work, the hours worked and the billing rate.*

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*Interim Associate Superintendent Childers indicated that a request for the information would be made with Blach and that, in the future, the information will be provided. This issue may also necessitate the review of administrative regulation related to adequate documentation.*

*Chair Biehl indicated that this item will be reviewed at the next meeting.*

*#15: Consider a review of all invoices charged to Measure G and Measure E funds to determine that project costs were properly allocated to each bond program.*

*This item states it is substantially compliant.*

*The only item being requested is the Performance Audit Report under Measure E and that will be provided. This item should be fully compliant.*

*#21: Develop and implement forms to be utilized by the staff to request and process accrued vacation payouts.*

*A process has been developed. This item is substantially compliant.*

*Vice Chair Martinez-Roach asked how could #19 be compliant if #21 is substantially compliant since they are somewhat related – the payoff issue.*

*Member Juchau understands this item to mean that no one has left, but a process is in place.*

*Chair Biehl indicated that an Associate Superintendent did leave under retirement during the time of this audit. Did the District follow the proper procedures?*

*Internal Auditor Marsh stated that he met with Associate Superintendent Giammona regarding the procedures and forms used; he is satisfied.*

*Member Neighbors indicated that he interprets #21 as accrued vacation that can have 30 paid out at the end of the fiscal year.*

*This item will be clarified at the next meeting by Internal Auditor Marsh.*

**9. Discussion/Action: FCMAT Report: Bond Funds – Contracted Services, FCMAT recommendation #2 to the District: Consider a review of all invoices charged to Measure G and Measure E funds to determine that project costs were properly allocated to each bond program. Issue referred to Audit Committee for advice per Board action on February 9, 2010.**

Dan Moser, Superintendent, will update the committee on the actions taken by the administration and the Board since our last meeting.

*Superintendent Moser indicated that there will be a continued review of the invoices by Internal Auditor Ian Marsh.*

*External Auditor Gharaibeh stated that item #15 from the FCMAT report update indicates the matter is substantially compliant. The language in item #15 is the same as item #9, which indicates that the expenses have been properly allocated between the two measures. Once VTD provides their report, it will be fully compliant. He indicated that item #9 is resolved. External Auditor Gharaibeh considers this matter to be closed.*

**10. Discussion/Action: Measure G & E General Obligation Bond Fund Performance Audit Reports for Fiscal Year Ended June 30, 2010**

Ahmad Gharaibeh, External Auditor, will brief the committee on each report's findings.

*External Auditor Gharaibeh commented that these audits are performed annually. The audit covers two areas: financial and performance. The financial covers the fact that the money has been accounted for properly. The performance report requires the District to obtain a review of the expenses that were charged to the bond fund and ensure that the expenses are in compliance with the Bond language. The scope of the audit is to ensure that the expenses are in compliance with the Bond Measures.*

*Substantially, it is fully compliant, but it was noted that when the contracts were reviewed, specifically, consultants for program management, some of the contracts did not give full guidance to the contractor as to what they can and cannot invoice.*

*With construction consultant contracts, it includes payment of hours and incurred charges for incidentals, such as travel, communication, etc. Some of these expenses were approved under different management. When management changed, the interpretation of what is and what is not allowed became different. The contracts were reviewed and they did not explain what is and what is not allowable under the contract. What a vender can charge for incidentals has not been clearly defined in this particular contract. All of these contracts have expired and are up for renewal. The status of the contracts and how they have been rewritten is unknown. This has been communicated to the Facilities Department*



*and they will be following up on the matter -- language in future contracts be clarified and be specific as to what is and what is not reimbursable.*

*The scope of the audit is not to review internal controls, how they do their bidding, or what type of polices they have. The scope of the audit is to ensure that the expenses are in compliance with Proposition 39. The draft audit report was provided to the District a couple of weeks ago. A copy will be provided to the Audit Committee Chair and Vice Chair.*

*Superintendent Moser indicated that the item would be placed on the April 21 Board meeting agenda.*

*This item will be remain on the agenda for the Internal Auditor to review the internal controls and is part of the Internal Auditor's Work Plan.*

*Member Neighbors left the meeting due to another commitment.*

*Note: The Audit Committee meeting still has a quorum.*

**11. Discussion/Action: Audit Work Plan Report**

Ian Marsh will report on the status of projects included in the Audit Work Plan.

*Internal Auditor Marsh discussed the narrative of his Work Plan with the Committee.*

*Facilities Development*

*He has had separate meetings with Legal Counsel, Jon Reinke and the Facilities Department staff. Discussions covered procedures and internal control issues. Mr. Marsh has read several audit reports from the last few years, including a report by Total School Solutions. In the Facilities area, at the request of Legal Counsel, an area of billing by one vendor was reviewed.*

*School Site Cash Handling*

*Four sites were visited: Andrew Hill, Evergreen Valley, Santa Teresa and Silver Creek. The focus was ASB cash handling at athletic events, Principals' discretionary accounts, petty cash, facilities rentals, authority of sites to open bank accounts, bank reconciliation procedures.*

*The significant controls issues identified are:*

- *Some sites are not completing their bank reconciliation monthly; one site had not been completing monthly bank reconciliations since June 30, 2010.*
- *Staff at some sites are not using Blue Bear software to its potential.*
- *A couple of sites have long outstanding deposits. One site has \$18,000 in deposits from November 2009 which have not yet cleared. That is a concern which may indicate a cash shortage. At one site, multiple requests for documentation have been made. The Principal has now given an ultimatum to provide the information. At another site, staff indicated they made a deposit, but there is no record. The District is getting ready to file a police report.*

*Next week, there is cash handling training for all Finance Clerks and Activities Directors. Attendance is mandatory at this training. Training will be provided at San Jose Unified by FCMAT.*

*Chair Biehl requested that Internal Auditor Marsh add to his Work Plan the review of policies and administrative regulations the District has in relation to bank accounts, including authorized signers, and to bring back recommended changes to the policy at the next Audit Committee Meeting.*

*Vice Chair Martinez-Roach would like the issue of debit cards included in Board Policy.*

*Internal Auditor Marsh indicated he has some level of discomfort with debit cards being used at school sites.*

*Attendance Reporting*

*Three sites were visited. Some internal control issues have been listed and they are being addressed at those sites. When the next site visit is made, it will be checked if corrective action was taken.*

*In the conversion from SASI to Infinite Campus, there has been some difficulty in the conversion of data. Administration feels that Infinite Campus does not have the feel of ease of use that SASI had. Contact has been made with a representative of Infinite Campus and these issues will be addressed.*

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*Internal Auditor Marsh spoke with a representative from VTD who was involved in a conversion of data from SASI to Infinite Campus. The conversion was difficult, but most of the conversion issues were resolved.*

*This item will be left on the agenda for further discussion, as well as part of the Work Plan.*

*E-Rate*

*Staff continues to work on e-rate. Internal Auditor Marsh is going to give staff time to resolve the e-rate issues.*

*Procurement*

*Nothing has been done in this area yet.*

*Legal*

*Internal Auditor Marsh speaks frequently to Legal Counsel. Most of the issues involve facility development and a number of confidential matters.*

*Vice Chair Martinez-Roach mentioned that millions of dollars have been spent on legal fees and the Audit Committee should be concerned. Someone needs to check if the right charges are being made and that services are not being duplicated.*

*Chair Biehl indicated that this concern is related to procedures and policies in place for the approval of legal work. He would like to make sure that policies are in place about who authorizes, when is the Board authorized, and what authority does the Superintendent have for the use of legal services. He is specifically interested in the relationship between the JPA on insurance and the attorney that is involved in the JPA when a claim is filed against the District.*

*Chair Biehl will place this item on the next agenda for further discussion.*

*Independent Accountants*

*Internal Auditor Marsh values the relationship and support with VTD.*

*Redevelopment Income*

*This item is a future project.*

Staff Training

- *January 2011: Met with Finance Clerks – Student Body Procedures were discussed*
- *April 19, 2011: Wells Fargo Bank will be at District Office to provided training on electronic banking*
- *April 20, 2011: Additional training for Finance Clerks and Activities Directors to be provided by FCMAT*

Andrew Hill Carnival

*This was looked into and there is a certificate of insurance on file. The carnival is being sponsored by a Booster Group, but it is the Principal who signed the contract. In the future, Legal Counsel should be asked to provide a one page summary for the benefit of District staff as to the scope of their authority in contracts, in particular with Principals.*

*Superintendent Moser indicated that insurance documents are issued one year at a time. They were using the insurance document that was currently in effect, but were notified that the document was going to lapse. They provided a new insurance certificate that goes for another year.*

*Vice Chair Martinez-Roach indicated that a policy dealing with carnivals needs to be developed, including language that includes authorization by the Board for carnivals. She feels that carnivals are a liability to the District.*

*Superintendent Moser indicated that he is going to find a Board Policy from where he can develop an Administrative Regulation on this particular subject.*

*It was also requested that the Worker's Compensation policy be updated to include language for such events.*

*Chair Biehl will place this item on the next Audit Committee agenda for further discussion.*

**12. Discussion/Action: 2009/10 East Side Union High School District Audit**

Ahmad Gharaibeh, External Auditor, will report on the status of the 2009/10 external audit.

*External Auditor Ahmad Gharaibeh shared with the Committee that VTD is out at the sites looking at attendance and student body funds. There is a concern regarding the deposits for use of facilities monies into the student body accounts. Those monies should go to the District Office and has been noted in the audit report.*

*They have received calls from the Department of Education regarding Title I and Special Education funding. He does see item #14 on the agenda as a discussion regarding Special Education. It looks as if the District is following up on the Special Education and Title I eligibility questions.*

*This year is a year for implementation of GASB54, which is related to fund balance, the biggest of which is designated for economic uncertainty. A policy needs to be in place for monies to be put into that line item, otherwise it will go as unrestricted. It will impact negotiations because people are not going to understand that a 3% reserve is required in that account. External Auditor Gharaibeh is scheduled to come back in May and provide a presentation as to what the Board needs to do in terms of policy adoption. There are procedures that the Board will need to follow in order to present the money.*

**13. Discussion/Action: E-RATE Reimbursement for 2008**

Superintendent Dan Moser will brief the Committee on the current status of the E-RATE reimbursement.

*E-rate has been placed back in for final review. Director Cage has been in contact with the special compliance section of the agency that deals with e-rate. They thanked Director Cage for submitting the information and informed him that the information provided is under review.*

*Chair Biehl will leave this item on the agenda for further discussion at the next meeting.*

**14. Discussion/Action: Status of Special Education IEP's**

Superintendent Moser will report on the status of the District's efforts to comply with Individual Education Plan (IEP) requirements for Special Education students.

*Superintendent Moser provided the status of Special Education IEPs.*

• *Audit of IEPs*

- *There is an ongoing inability to stay current with IEPs (due: approximately 3,000/year; 300-400/month). The California Department of Education (CDE) has reviewed the District's IEPs several times since 2007 and the District has failed the test each time. Progress was made initially when the audit was made and there were an excess of 800 IEPs overdue. That amount was reduced to 500-600 overdue IEPs. CDE has requested the District to make a report to the Board of Trustees relative to the issue, including the corrective action.*

- *CDE has come in and has started auditing the content of IEPs. They have specific recommendations for professional development that has been mandated of staff, which will be executed immediately. As a consequence, the Superintendent has weekly Monday morning meeting with the Special Education Administration relative to the number of IEPs that are overdue. He is looking at IEPs that are 6 and 8 months overdue.*

*Compliance of IEPs is regulated at the Federal level; there is a zero tolerance. An average IEP can be 20+ pages. All information in the IEP must be accurate. When CDE comes to review the files, they look at everything and anything that is incorrect in the files. The State has a system in place called CASEMIS. They can monitor on a live basis whether or not our IEPs have been entered in the statewide system. This is how the State monitors for the Feds the compliance of having an IEP.*

*It is going to end up being a very strict accountability at the site level with the Principal because the Superintendent is being held responsible by the State of, "Have you reviewed every IEP that has come forward?" It is an intense management problem.*

*External Auditor Gharaibeh indicated that the issue with IEPs is chronic with high schools. This is a finding that VTD comes up with often; it is not just East Side.*

**15. Discussion/Action: Establish Next Meeting Date**

*The next meeting of the Audit Committee will be June 11, 2011.*

**16. Superintendent Communications/Comments**

- Interim Associate Superintendent of Business Services, Hardy Childers
- Superintendent, Dan Moser

*There were no comments under this section.*

**17. Audit Committee Member Comments**

Individual Audit Committee members may report on programs, conferences, meetings attended and/or items of interest to the public. An Audit Committee member may wish to express a concern or observation about a topic not appearing on the agenda, or request items to be scheduled on a future agenda.

*There were no comments under this section.*

**18. Adjournment**

*Chair Biehl adjourned the meeting at 11:56 a.m.*

*Respectfully submitted,*

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*Frank Biehl, Board Audit Committee Chair*

# **Item 8**

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
2002 MEASURE G  
GENERAL OBLIGATION BOND FUND  
JUNE 30, 2010**





INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of the 2002 Measure G General Obligation Bond Fund (the Fund), of the East Side Union High School District, as of June 30, 2010, and the related statement of revenues, expenditures and changes in fund balance for the year ended June 30, 2010. 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 1, the financial statements present the financial activity of the Fund only, and do not purport to, and do not, present the financial position and results of operations of the East Side Union High School District as a whole, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2010, and the results of its operations for the year then ended, 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 February 15, 2011, on our consideration of the East Side Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control 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 conjunction with this report in considering the results of our audit

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
February 15, 2011

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G GENERAL OBLIGATION BOND FUND  
BALANCE SHEET  
JUNE 30, 2010**

ASSETS

Cash and investments	\$ 55,000,533
Accounts receivable	118,308
Total Assets	<u>\$ 55,118,841</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	\$ 3,183,185
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FUND BALANCE

Fund balances	
Undesignated	<u>51,935,656</u>
Total Liabilities and Fund Equity	<u>\$ 55,118,841</u>

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G GENERAL OBLIGATION BOND FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2010**

REVENUES AND OTHER SOURCES

Interest	\$ 636,823
All other local income	20,160
Total Revenues	<u>656,983</u>

EXPENDITURES

Current Expenditures	
Classified salaries	902,011
Employee benefits	315,973
Supplies	64,675
Equipment	310,049
Services and operating expenditures	2,278,646
Capital outlay	3,220,561
Total Expenditures	<u>7,091,915</u>

DEFICIENCY OF REVENUES OVER EXPENDITURES

FUND BALANCE, JULY 1, 2009	58,370,588
FUND BALANCE, JUNE 30, 2010	<u>\$ 51,935,656</u>

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2002 MEASURE G GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the 2002 Measure G General Obligation Bond fund (the Fund) of the East Side Union High School District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

#### **Financial Reporting Entity**

The financial statements include the financial activity of the 2002 Measure G General Obligation Bond Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure G Bond Election of 2002. These financial statements are not intended to present the financial position and results of operations of the East Side Union High School District as a whole, in conformity with accounting principles generally accepted in the United States of America. The authorized issuance amount of the bonds is \$298,000,000. The first series of bonds in the amount of \$30,000,000 were sold on June 19, 2002. The second series of bonds were sold on March 19, 2003, in the amount of \$30,000,000. The third series of bonds were sold on July 14, 2004, in the amount of \$50,000,000. The fourth series of bonds were sold on May 19, 2005, in the amount of 70,000,000. The fifth series of bonds were sold on June 2, 2005, in the amount of almost \$29,999,529. The sixth series of bonds were sold on June 21, 2006, in the amount of \$50,000,000. The seventh series of bonds were sold on August 1, 2007, in the amount of \$19,997,739 and the eighth and last series was issued on November 13, 2008, in the amount of \$18,000,000.

#### **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses 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 of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Long-term debt is not included as a liability of the Fund, but is disclosed separately in the notes to financial statements. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**NOTE 2 - INVESTMENTS**

Deposits with the County Treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with the County Treasury are valued using the amortized cost method (which approximates fair value). The fair value was provided by the County sponsor of its pool.

The investments at June 30, 2010 had reported and fair values as follows:

	Reported Amount	Fair Value
Deposits with county treasurer	<u>\$ 55,000,533</u>	<u>\$ 55,261,786</u>

**NOTE 3 – ACCOUNTS RECEIVABLE**

Receivables at June 30, 2010 consisted of interest receivable of \$118,308.

**NOTE 4 – ACCOUNTS PAYABLE**

Payables at June 30, 2010 consisted of vendor payables of \$3,183,185.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G GENERAL OBLIGATION BOND FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 5 – GENERAL LONG-TERM DEBT**

The general obligation bonds of the District including measure G bonds are outstanding as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue
June 19, 2002	August 1, 2026	3.25% - 5.75%	\$ 30,000,000
March 19, 2003	August 1, 2028	2.50% - 5.00%	30,000,000
May 19, 2005	August 1, 2024	3.50% - 5.00%	70,000,000
July 14, 2004	August 1, 2028	4.00% - 5.00%	50,000,000
June 2, 2005	August 1, 2029	4.25% - 5.15%	29,999,529
June 21, 2006	August 1, 2036	4.00% - 4.25%	50,000,000
August 1, 2007	August 2, 2031	4.45% - 4.95%	19,997,739
November 13, 2008	August 1, 2031	5.00% - 6.00%	18,000,000

Repayment of the Bonds will be funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues will be collected and disbursed out of a separate Bond Interest and Redemption Fund under the control of the Santa Clara Controller's Office. This fund is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

**NOTE 6 – CONSTRUCTION COMMITMENTS**

As of June 30, 2010, the following were commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Program Management Fees - All Sites	\$ 1,332,584	Jun-11
Apollo Modular Classrooms	239,928	Jun-10
Foothill Modernization	124,923	Jun-11
James Lick Modernization	3,525,196	Jun-13
Independence Modernization	21,460	Jun-11
Mount Pleasant Modernization	198,536	Jun-11
W.C. Overfelt Modernization	711,390	Jun-11
Yerba Buena Modernization	215,714	Jun-11
Santa Teresa Modernization	929,412	Jun-10
	\$ 7,299,143	



**INDEPENDENT AUDITOR'S 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***

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

We have audited the financial statements of the 2002 Measure G General Obligation Bond Fund (the Fund), of the East Side Union High School District as of and for the year ended June 30, 2010 and have issued our report thereon dated February 15, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered East Side Union High School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the East Side Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the East Side Union High 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.

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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Side Union High 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*.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
February 15, 2011



**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2002 MEASURE G  
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 G 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 G 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 November 5, 2002, to issue bonds of the District in an aggregate principal amount not to exceed \$298,000,000 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 G.
2. Determine whether salary transactions charged to the Bond Fund were in support of Measure G 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 G 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 \$5,249,215. This represents 80% of the total expenditures of \$7,091,915.
3. We verified that funds were expended for the purposes specified in Measure G 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:

**Unclear contract terms** – During our review of the vendor request for reimbursements, we noted inconsistency in the definition of what is allowed under the term of the contract. The current management of the District had a different interpretation of what is an allowable contract expense compared to the prior management team. In review of the contract agreements, it was noted that the language used by the District in the contract did not properly define what is an allowable expense incurred by the contractor that can be reimbursed by the District.

**Recommendation** – We recommend that the District properly define the types of expenses a contractor can charge to the District to avoid different interpretation by the contractor and District management as to what is an allowable expense under the contract terms.

### **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

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
2008 MEASURE E  
GENERAL OBLIGATION BOND FUND  
JUNE 30, 2010**



## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheet of the 2002<sup>8</sup> Measure E General Obligation Bond Fund (the Fund), of the East Side Union High School District, as of June 30, 2010, and the related statement of revenues, expenditures and changes in fund balance for the year ended June 30, 2010. 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 1, the financial statements present the financial activity of the Fund only, and do not purport to, and do not, present the financial position and results of operations of the East Side Union High School District as a whole, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2010, and the results of its operations for the year then ended, 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 February 15, 2011, on our consideration of the East Side Union High School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control 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 conjunction with this report in considering the results of our audit

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California  
February 15, 2011

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E GENERAL OBLIGATION BOND FUND  
BALANCE SHEET  
JUNE 30, 2010**

**ASSETS**

Cash and investments	\$ 108,632,422
Accounts receivable	240,108
Total Assets	<u>\$ 108,872,530</u>

**LIABILITIES AND FUND EQUITY**

**LIABILITIES**

Accounts payable	\$ 1,145,530
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**FUND BALANCE**

Fund balances	
Undesignated	107,727,000
Total Liabilities and Fund Equity	<u>\$ 108,872,530</u>



**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E GENERAL OBLIGATION BOND FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2010**

REVENUES AND OTHER SOURCES

Net proceeds from issuance of bonds	\$ 100,000,000
Interest	472,525
Other financing sources	10,000
Total Revenues	<u>100,482,525</u>

EXPENDITURES

Current Expenditures	
Classified salaries	33,806
Employee benefits	3,703
Supplies	24,055
Equipment	1,366,358
Services and operating expenditures	3,180,363
Capital outlay	16,742,402
Total Expenditures	<u>21,350,687</u>

EXCESS OF REVENUES OVER EXPENDITURES	79,131,838
FUND BALANCE, JULY 1, 2009	28,595,162
FUND BALANCE, JUNE 30, 2010	<u>\$ 107,727,000</u>

# **EAST SIDE UNION HIGH SCHOOL DISTRICT**

## **2008 MEASURE E GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010**

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the 2008 Measure E General Obligation Bond fund (the Fund) of the East Side Union High School District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

#### **Financial Reporting Entity**

The financial statements include the financial activity of the 2008 Measure E General Obligation Bond Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure E Bond Election of 2008. These financial statements are not intended to present the financial position and results of operations of the East Side Union High School District as a whole, in conformity with accounting principles generally accepted in the United States of America. The authorized issuance amount of the bonds is \$349,000,000. The first series of bonds, Series A, in the amount of \$50,000,000 was sold on June 12, 2008. The second series of bonds, Series B, in the amount of \$100,000,000 was sold on August 1, 2009.

#### **Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses 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 of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Long-term debt is not included as a liability of the Fund, but is disclosed separately in the notes to financial statements. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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/expenses during the reporting period. Actual results could differ from those estimates.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**NOTE 2 - INVESTMENTS**

Deposits with the County Treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with the County Treasury are valued using the amortized cost method (which approximates fair value). The fair value was provided by the County sponsor of its pool.

The investments at June 30, 2010 had reported and fair values as follows:

	Reported Amount	Fair Value
Deposits with county treasurer	<u>\$ 108,632,422</u>	<u>\$ 109,148,426</u>

**NOTE 3 – ACCOUNTS RECEIVABLE**

Receivables at June 30, 2010 consist of interest receivable of \$240,108.

**NOTE 4 – ACCOUNTS PAYABLE**

Payables at June 30, 2010 consist of vendor payables of \$1,145,530.

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**2008 MEASURE E GENERAL OBLIGATION BOND FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 5 – GENERAL LONG-TERM DEBT**

The general obligation bonds of the District including Measure E bonds are outstanding as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue
June 12, 2008	August 1, 2038	4.00% - 5.00%	\$ 50,000,000
August 1, 2009	August 1, 2039	3.00% - 5.00%	\$ 100,000,000

Repayment of the Bonds will be funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues will be collected and disbursed out of a separate Bond Interest and Redemption Fund under the control of the Santa Clara Controller’s Office. This fund is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bonds.

**NOTE 6 – CONSTRUCTION COMMITMENTS**

As of June 30, 2010, the following were commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Program Management Fees - All Sites	\$ 13,481,625	Jun-13
Andrew Hill Modernization	561,554	Jun-12
Education Centers Information Upgrades	18,291,629	Jun-12
Evergreen Valley Modernization	915,317	Jun-12
Foothill Modernization	1,820,197	Jun-11
Independence Modernization	291,295	Jun-12
James Lick Classroom Building	1,811,615	Jun-13
James Lick Modernization	338,978	Jun-12
Mount Pleasant Modernization	3,476,879	Jun-13
Oak Grove Modernization	489,653	Jun-12
Overfelt & Independence Modernization	1,643,599	Jun-14
PH Modernization	789,059	Jun-13
Santa Teresa Modernization	789,373	Jun-12
Silver Creek Modernization	1,591,001	Jun-13
W.C. Overfelt Modernization	1,459,741	Jun-13
Yerba Buena Modernization	4,184,278	Jun-12
	<u>\$ 51,935,793</u>	



**INDEPENDENT AUDITOR'S 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***

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

We have audited the financial statements of the 2007<sup>8</sup> Measure E General Obligation Bond Fund (the Fund), of the East Side Union High School District as of and for the year ended June 30, 2010 and have issued our report thereon dated February 15, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered East Side Union High School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the East Side Union High School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the East Side Union High 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.

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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Side Union High 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*.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinck, Trine, Day & Co. LLP

Palo Alto, California  
February 15, 2011

**EAST SIDE UNION HIGH SCHOOL DISTRICT**

**200<sup>8</sup> 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

**East Side Union High School District**

**Item 8**

**Internal Audit**

**Draft Work Plan FY 2010-12, by Priority**

1. Facilities development; Measure E, G Bonds
  - Expenditure approval
  - Reporting procedures
  - Project management
  - Competitive bidding
  - Change orders
  
2. School Site Cash Handling
  - Revolving cash
  - Associated Student Body
  - Athletic events
  - Rental of facilities
  - Authority to open bank accounts
  - Bank reconciliations
  
3. Attendance reporting
  - Data accuracy
  - Absences
  - Truancy
  - Independent study
  
4. E-Rate
  - Statutory compliance
  
5. FCMAT Special Audit
  - Status of corrective action
  
6. Procurement
  - Compliance with statute, Board policies
  
7. Legal
  - Policies and procedures for review of claims against district
  - Review and approval of invoices

8. Independent Accountants

- Liaison with district staff
- Follow-up prior audit results

9. Special Projects

- Data analysis
- Audit Committee, management-requested items

10. Redevelopment Income

- AB 1290 pass-through revenues

11. Staff Training

- School site cash handling, including ASB procedures
- Attendance reporting