



Santa Monica Malibu Schools

Santa Monica-Malibu Unified School District
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Date: February 25, 2011
To: Members, Board of Education
From: Janece L. Maez, CFO
CC: T. Cuneo, Superintendent
Members, BOC
Re: Staff Response to the Annual Report for the Period Ending 6/30/09

Please find attached a response prepared by staff to the report from the Measure BB Citizens Bond Oversight Committee for the period ending June 30, 2009.

***Staff Response to Bond Oversight Committee Annual Report for
the Period Ending 6/30/09
February 25, 2011***

Introductory sections of report

The primary purpose of the Bond Oversight Committee is to form an opinion and relate that opinion to the public regarding the appropriateness of expenditures within the district's program. Page two of the report states that the BOC "seeks to accomplish this (*accountability over Measure BB*) by determining beyond any reasonable question the District's general obligation bonds ... have been expended and disbursed according to Measure BB authorized purposes". Staff agrees that information should be provided to the committee first and then the public in such a manner that individuals receiving the information can evaluate if the funds are being used and spent as provided for by the electorate. The audit report is a very important document for the committee to use in this evaluation. The report should be accurate and complete in order for the committee to have confidence in the information contained within the audit. It is clear from the recommendations or suggestions of this annual report that improvements can be made. Staff will continue to work with our auditors in preparing an audit report that meets these standards. Staff appreciates the committee members who have carefully and thoroughly studied the district's audit report. The suggestions for improvement have and will continue to be incorporated into future audits. Staff will also to continue to provide the committee with supplemental information for their evaluation process.

The committee relies heavily on the Special Audit Report provided by auditors. Staff agrees there were areas of the report that could have been clearer, more concise, and more informative. It is important that this critical document is accurate, understandable and reflects a complete picture of the bond program. The suggestions of this annual report are helpful in accomplishing this objective with future district reports.

Page four of the report indicates that the committee expects more details, more transparency and the use of language better understood by the public. Staff agrees with these objectives and will continue to improve reporting formats. The formal audit may not include all of these reports but of the entire body of information should be available to the committee or the public. The use of the district web site could be more effectively used for this purpose.

The work with the Ad Hoc Committee in January 2010 was very helpful in preparation of the final district audit. The district agrees with the recommendation that the audit report should be available in January or February of the year following the reporting period. When the district and committee reach agreement on the content and substance of the audit report this timeline should be attainable. The length of time that it took for the audit to be completed, the reports to be prepared, the review by the Ad Hoc Committee has delayed the process of the annual report. Staff feels strongly that committee should be provided the information much sooner and the process must move more quickly. The hard work by the committee to get the 2008-09 report to the Board will facilitate the process in future years. It is expected that the 2009-10 report will be ready in a more expedited fashion.

The Balance of this response is directly related to sections of the Committee's Annual Report:

Lack of Confidence

A. These are technical corrections to the report that the District has agreed to address. The District does not consider those areas identified as significant to the overall finding of the auditor.

B. The table that is being referred to is a comparison of adopted budget to actual expenditures, and should have been noted that way. When the auditors reviewed the books after closing and examined the Board approved budget at 6/30/09 - approved adjustments to the adopted budget had been done and no over expenditures existed. When the auditors concluded that expenditures were appropriate and approved properly it was an accurate statement. The committee's concern is that the table improperly reflects the status of the program due to the incorrect designation. This error in the report leads to questioning other portions of the audit and an overall lack of confidence. Staff agrees that this kind of error is sloppy and should be addressed.

Transparency and understandability of information

The District agrees that separate accounts for Measure BB funds is appropriate and will make reporting easier for the lay person to understand. As of the 6/30/10 only Measure BB proceeds or interest are being reported in Fund 21 – the district's Building Fund. The separate reporting has already started.

All issues with the reporting and transactions related to the Boys and Girls have been resolved. Any cash, with interest, has been returned to Measure BB.

A. As stated above Measure BB funds are now completely separated from other facilities funds of the district. Grants that relate entirely to one of the specific Measure BB programs will continue to report within the fund. The district's accounting system can clearly identify the revenue and expenditures in those grants. The grant amounts are so small that they do not present a material misstatement of the accounts.

B. The committee has been given reports by project that are extremely detailed and tie directly to the audit report and the district's financial system. The committee is asking that the detail be included in the audit. Staff feels that reporting at the detail expected or suggested by the committee goes beyond the typical scope of an audit and would be an unnecessary expense if the audit firm supplemented their document. Staff will continue to provide this information to the committee during site walks and regular meetings.

It has been explained to the committee that the district is now preparing detailed project by project reports with approved budgets, current to date expenditures; encumbrances for contracts approved and estimated costs to complete the project. These reports are cumulative and report all expenditures from the first dollar of Measure BB spent. The audit report is only an annual view of transactions and will always differ from the reports prepared by both the district and Parsons. The auditors look at approximately 20% of all transaction in the program and verify accuracy of expenditures, budgets and reporting. They also examined transfers or other transactions within the fund. It is staffs opinion the additional testing is not required.

C. Cash flows for the project can be produced by staff and presented to the committee. Staff will ask the auditors to review for reasonableness.

D. With completely separate reporting of Measure BB proceeds, the district and committee will be able to ascertain when all funds are spent.

E. Staff will work with the auditors to ensure that the terminology used throughout the report not only complies with accounting principles, the State Audit guide and GASB but considers the request of the committee to make changes. Some of changes requested by the committee do not reflect the State Accounting Manual guidelines. To the extent the changes can be made that do not oppose state rules and regulations staff agrees they can be incorporated. Staff agrees to work with the committee members so that the report might be more closely aligned with what a lay person would understand. Changes within the report should reflect common language, less accounting “speak” to make the entire report more useful

F. Staff will work with committee members to prepare a meaningful report to address this concern.

G. The filling of vacancies on the committee is dictated by law – various stakeholder groups are required on the committee. Experience with State accounting practices would be helpful, but should not be the driving criteria when selecting new members.

H. Staff will continue to work with the committee to improve the Management Discussion and Analysis portion of the audit.

Investment of cash and concern that not all interest earned by Measure BB have been allocated to Measure BB

A. The transactions referred to are very standard and occur regularly in school district accounts held by the County Treasurer. Typically these transactions are reported as a foot note and not as part of the official books of the district. In an effort for transparency the audit reflected these changes in the books. The real question here is: should the district invest Measure BB funds somewhere other than the County. Staff does not support making a change. The County has a strong investment staff in the Treasurer’s office and the pooling of all funds is beneficial to the district in the long run.

B. All use of Measure BB funds by any other program has been repaid with interest. Staff has outlined the entries to committee members. The separation of Measure BB funds will prevent any use of “cash” between Measure BB and another program.

Formal and informal loans of Measure BB bond cash are not allowable

The district’s bond counsel supports the notion that Measure BB cash cannot be used for purposes other than the voters approved. Again separation of the reporting will prevent inadvertent “loans” from happening again.

A. The action of the Board authorizing temporary interfold cash borrowing does not apply to Fund 21, Building Fund. When the Board is again asked to approve this resolution, the staff report will indicated that it does not apply to Measure BB funds. The report also refers to the 1 million dollar transaction between the two funds. This was a transfer that the Board and staff initially deemed appropriate and after further consideration determined that it should be returned with

interest. This was in an abundance of caution, the need for the funds in the facility program and not because it was considered inappropriate or illegal.

B. This refers again to the separation of the funds and the use on a temporary basis of Measure BB cash for the Boys and Girls Club project. All funds have been repaid with interest.

Summary

District staff continues to work at improving the communication between the district and members of the committee. A series of site walks have now been conducted and will continue. Committee members are receiving detailed information during those site visits that should assist them in increasing confidence in the reporting and information presented to the public related to Measure BB.

Staff agrees with the conclusions of the report that the information must be prepared and presented on a timelier basis. The length of time it took to have the report prepared, reviewed, analyzed and discussed was much too long. Staff is committed to efforts improving the process for the 2009-10 report.