

San Dieguito Union High School District

Its Expenditures for Community Facilities District 94-2 Were Generally Appropriate, but It Did Not Fully Disclose Some of Its Financial Issues

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San Dieguito Union High School District's response as of December 2010

The Joint Legislative Audit Committee (audit committee) requested that the Bureau of State Audits (bureau) review the San Dieguito Union High School District's (school district) use of Community Facilities District 94-2 (facilities district 94-2) funds.

Finding #1: Almost all tested expenditures for the facilities district were appropriate.

With three exceptions, our testing of 60 invoices totaling \$16.4 million indicated that the school district's projects and expenditures for the facilities district have generally been appropriate. More specifically, between 1998 and 2009, a large majority of expenditures for the facilities district was spent on school facilities specified in the resolution of formation that created the facilities district. For example, the school district spent \$9 million for projects at La Costa Canyon High School and \$1.9 million for projects at Oak Crest Middle School; the resolution of formation lists both as approved schools on which the school district may spend facilities district funds. The exceptions totaled \$451,000. The first exception concerned about \$294,000 in payments for relocatable classrooms on the property of Sunset High School that the school district has used as district administrative offices since the classrooms' installation. The resolution of formation for the facilities district does not allow the facilities district to pay for school district offices. The second and third exceptions concerned the school district's charging the facilities district approximately \$157,000, or 49 percent, of the \$322,000 it spent on housing and demographic studies between 1999 and 2007. The school district did so even though the studies pertained to the entire school district. The charges to the facilities district were inappropriate because the school district did not reasonably allocate the costs across the school district, including eight other facilities districts. After 2007 the school district began using a district-wide fund to pay for its demographic studies, according to the school district's director of planning and financial management.

We recommended that the school district reimburse the facilities district for the \$451,000 in erroneous payments for administrative facilities and demographic studies, or the school district should adjust the charges to this facilities district so that they reflect only appropriate expenditures.

Audit Highlights . . .

Our review of the San Dieguito Union High School District's (school district) use of Community Facilities District 94-2 (facilities district 94-2) funds revealed that the school district:

- » *Issued more than \$93 million in revenue bonds since 1998 to pay for school construction and improvements.*
- » *Has allocated about \$29.1 million in bond-related funds to facilities district 94-2.*
- » *Spent facilities district 94-2 funds in appropriate ways except for certain relocatable facilities and for housing and demographic studies costing in total \$451,000.*
- » *Did not clearly communicate to the public the significant financial difficulties it encountered in early 2008 associated with its bonds, including the risk that funds to make bond payments would run out within a year.*
- » *Did not disclose certain required financial information concerning the economic gain or loss resulting from bonds it issued in 2006, and the potential risks from a key financial agreement associated with the bonds.*

School District's Action: Corrective action taken.

The school district reported that it reclassified the expenses related to the locatable buildings at Sunset High School and the demographics studies as nonqualified facilities district 94-2 expenditures, effectively eliminating them from the account used to track spending on facilities district 94-2 projects.

Finding #2: The school district did not clearly communicate its financial problems related to the 2006 bonds.

In early 2008 the school district did not communicate adequately to the public that interest costs on bonds for its community facilities districts had increased substantially and that the school district faced a risk that funds to make bond payments would run out by March 2009. Despite this serious financial situation, the agendas and minutes for meetings of the school district's board of trustees (school board) did not reflect the problems that the district was facing or its plans for addressing them. Because the school district did not provide detailed information, members of the public who did not attend school board meetings had little access to the information necessary to provide comments and recommendations to the school board and to hold it accountable.

We recommended that the school district ensure that descriptions for agenda items and minutes for school board meetings contain sufficient information to convey the substance of the items accurately, and post to the school district's Web site all relevant documents and presentations related to agenda items.

School District's Action: Corrective action taken.

The school district reported that its staff will endeavor to appropriately caption agenda items so that the public is sufficiently informed of the discussion. It also said that supplemental materials made available at meetings of the school board are now included in the minutes and are posted on its Web site.

Finding #3: The school district did not make all required financial statement disclosures.

For fiscal year 2006–07, the school district did not make certain disclosures required by applicable financial reporting standards related to bonds and other financial instruments. For example, the school district did not include information in its financial statements concerning the economic gain or loss resulting from its refunding bonds, which are the bonds issued in 2006 to redeem the school district's outstanding 1998 and 2004 bonds. Moreover, the school district failed to describe the potential risks from a key financial agreement associated with the bonds. Because the school district's financial statements lacked these disclosures, interested citizens were less able to assess the financial position of the district.

We recommended that the school district ensure that it follows all relevant standards for financial reporting and to this end consider using a checklist, such as the *Government Finance Officers Association's School District Preparer Checklist*, designed to assist in preparing comprehensive annual financial reports of school districts.

School District's Action: Pending.

The school district stated that it believes the *Government Finance Officers Association's School District Preparer Checklist* is most relevant to the independent auditing firm preparing the annual financial audit. The school district indicated that it is preparing to release a request for proposals from firms qualified to conduct audits of California school districts, and its evaluation criteria will include a review of tools and checklists used by the auditors and their school district clients to ensure the school district's annual audit reports will be fully compliant with all standards for financial reporting.

Finding #4: The school district usually met deadlines for responding to public requests for records, but it did not document consistently the records that it provided.

Between 2007 and 2009, the school district received 19 requests for information regarding facilities district 94-2. Nearly all of the requests came from a citizens group concerned about the school district's management of facilities district 94-2. The school district's responses to the requests generally complied with the deadlines in the California Public Records Act (records act), but a lack of documentation frequently prevented us from determining whether the school district provided all the requested documents. In three of the 19 instances, the school district exceeded by three to six days the initial 10-day deadline for responding to requests. However, the district often did not maintain a record of the documents that it had deemed responsive to a request, so we could not determine for eight of the 19 requests whether the information that the school district made available met the requests.

We recommended that the school district maintain a record of documents that it makes available to requesters.

School District's Action: Corrective action taken.

The school district reported that depending on the scope of the request, it will either continue its practice of making a back-up copy of records provided under the records act, or in the case of a voluminous request, the school district will document a general description of records provided.

