



San Diego Unified School District
2017 Client Service Plan – Prop. S and Z
April 27, 2017

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Crowe's Client Service Team

Role	Name	Phone	Email	Definition of Role
Audit Partner	Matt Nethaway	916.492.5124	matt.nethaway@crowehorwath.com	Matt is the engagement partner in-charge who will oversee the quality of the overall audit experience and is responsible for signing the reports. Matt will have responsibility for the overall performance of our people and for the timely completion of our audit work.
Technical Advisory Partner	Jeff Jensen	916.492.5162	jeff.jensen@crowehorwath.com	Jeff will provide technical assistance to the engagement team. Jeff will also be a part of the quality assurance effort as a report reviewer.
Quality Control	Brian Archambeault Tony Boras	574.236.7610 630.706.2053	brian.archambeault@crowehorwath.com tony.boras@crowehorwath.com	Brian and Tony are members of our Quality Control (APP) practice. Their role is to provide the final quality control review of the draft audit report.
Audit Managers	Arthur Ngo Joe Trone	916.266.9502 916.266.9514	arthur.ngo@crowehorwath.com joseph.trone@crowehorwath.com	Arthur and Joe will jointly oversee the execution of the audit. Arthur and Joe will be responsible for direct communication with the District regarding the status of the audit progress as well as supervising the engagement senior and staff. Arthur and Joe will report directly to Matt.

Crowe's Services and Deliverables

We are committed to providing you with the highest level of professional service and to exceeding your expectations. We wish to ensure that we have an understanding of the services we are to perform and the deliverables that we are to provide.

Service	Deliverable
Audit of the financial statements of Proposition S and Proposition Z Bond funds for the year ending June 30, 2017.	<ul style="list-style-type: none">• Annual Audit Report
Performance audit of Proposition S and Proposition Z Bond funds in accordance with the California Constitution, Proposition 39 and Education Code Section 15278.	<ul style="list-style-type: none">• Proposition S Performance Audit Report• Proposition Z Performance Audit Report

Audit Timeline

To ensure we appropriately understand your expectations regarding the time frames for delivery and completion of our services, we wish to discuss with you the following draft timeline we have prepared.

Activity	Planned Date
Audit Planning Meeting	March 22, 2017
First Interim Fieldwork: <ul style="list-style-type: none"> • Planning / bond expenditure testing • Internal Control Understanding - Bonds 	Week of April 24, 2017
Independent Citizens Oversight Committee Planning Meeting	June 2017 (Tentative)
Second Interim Fieldwork <ul style="list-style-type: none"> • Bond expenditure testing and various performance audit procedures 	Week of July 24, 2017
Year-end Fieldwork <ul style="list-style-type: none"> • Bond Financial Statement and various performance audit procedures 	Week of October 2 nd and 9 th , 2017
Independent Citizens Oversight Committee Meeting	Fall/Winter 2017
Conduct Meeting with District Audit Committee	November 2017
Conduct Meeting with District Board of Education	December 12, 2017

Audit Planning Communications

Professional standards require that we communicate certain matters to keep you adequately informed about matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. We communicate such matters in this report.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Our responsibility is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. Refer to our engagement letter with the District for further information on the responsibilities of management and of Crowe Horwath LLP.

AUDITOR'S RESPONSIBILITY UNDER GOVERNMENT AUDITING STANDARDS

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's 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 or disclosures. 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.

- These audits do not relieve management or the Audit Committee of your responsibilities.
- Our audits are designed to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets.
- These audits include:
 - Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
 - Obtaining an understanding of internal control over financial reporting, and testing and evaluating the compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.
 - Assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
 - Communicating significant matters related to the audit to the Audit Committee.
- Accordingly, our audits are designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe that our audits will accomplish these objectives.
- Our understanding of the terms of the audit engagement are recorded in our engagement letter.

The Audit Planning Process

Our audit approach places a strong emphasis on obtaining an understanding of how your District functions. This enables us to perform an appropriate risk assessment, identify key transaction cycles and audit components, and tailor our procedures to the unique aspects of your business. The development of a specific audit plan will begin by meeting with you and with management to obtain an understanding of business objectives, strategies, risks, and performance.

We will obtain an understanding of internal control to assess the impact of internal control on determining the nature, timing and extent of audit procedures, and we will establish an overall materiality limit for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error.

We will use this knowledge and understanding, together with other factors, to first assess the risk that errors or fraud may cause a material misstatement at the financial statement level. The assessment of the risks of material misstatement at the financial statement level provides us with parameters within which to design the audit procedures for specific account balances and classes of transactions. Our risk assessment process at the account-balance or class-of-transactions level consists of:

- An assessment of inherent risk (the susceptibility of an assertion relating to an account balance or class of transactions to a material misstatement, assuming there are no related controls); and
- An evaluation of the design effectiveness of internal control over financial reporting and our assessment of control risk (the risk that a material misstatement could occur in an assertion and not be prevented or detected on a timely basis by the District's internal control).

We will then determine the nature, timing and extent of tests of controls and substantive procedures necessary given the risks identified and the controls as we understand them.

The audit planning process also includes inquiries of the audit committee as to whether it is aware of matters that might be relevant to the audit, including, but not limited to, knowledge of violations or possible violations of laws or regulations and complaints or concerns raised regarding financial reporting matters.

The Concept of Materiality in Planning and Executing the Audit

In planning the audit, the materiality limit is viewed as the maximum aggregate amount of misstatements, which if detected and not corrected, would cause us to modify our opinion on the financial statements. The materiality limit is an allowance not only for misstatements that will be detected and not corrected but also for misstatements that may not be detected by the audit. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. At the end of the audit, we will inform you of all individual adjustments that were recorded in the financial statements and all individual unrecorded misstatements (unless they are clearly inconsequential) aggregated by us in connection with our evaluation of our audit test results.

Business, Fraud and IT Controls Risk Factors

During the course of our audit, we make assessments of various business, fraud and IT controls risk factors and tailor our audit procedures such that areas representing higher risk receive appropriate audit emphasis.

Identified Risk Factors: The table below provides a summary of selected risk factors, including selected fraud risk factors, and their potential impact on this year's audit process. This is not intended to be a complete list of risk factors that you may face. The reason an item may be identified as a risk factor include the possibility that they are a(n):

- Significant Audit Risk Area,
- Fraud Risk Factor,
- IT Controls Risk Factor, or
- Significant Estimate.

Exhibit A –

Proposition S and Z Performance Audit Objectives and Procedures

SAN DIEGO UNIFIED SCHOOL DISTRICT
PROPOSITIONS S AND Z BOND PROGRAM
PERFORMANCE AUDIT
OBJECTIVES AND PROCEDURES

1. Compliance with Certain Applicable Laws and Regulations

Objective: Determine compliance with Public Contract Code related to bid requirements and District policy for change orders.

Procedures: Select a sample of contracts and test compliance with public bidding and contractor selection requirements set forth in California law, including the Public Contract Code, as well as District Policy. Attributes tested will include:

- Completion of two week advertising requirement
- Existence of bidder's security
- Selection of lowest qualified
- Board approval
- Compliance with DVBE% requirement

2. Compliance with District Policy for Change Orders

Objective: Document and test change order procedures for compliance with applicable Board of Education policy and the Public Contract Code.

Procedures: Select a sample of change orders to assess compliance with applicable Board of Education policy and applicable laws and regulations. Key elements tested will include:

- Accuracy of designation
- Accuracy of change order amount
- Proper approval

3. Bond Expenditures and Recordkeeping

Objectives: Determine if total individual contract awards agree to total project expenditures, verify that the facilities project expenditure tracking system reconciles to District financial records and determine if expenditures are described in the budget.

Procedures: Test a sample of projects by obtaining the budget detail and trace the expenditure detail from the PeopleSoft database into the PCM database.

Objectives: Select a representative sample of expenditures charged to Proposition S and Proposition Z and review supporting documentation to ensure that such funds were properly expended on specific projects listed in the text of the applicable ballot measure. Verify that the funds were generally expended for the construction, renovation, furnishing, and equipping of school facilities constituting authorized bond projects. Verify that the funds used to pay the salaries of district employees were allowable per Opinion 04-110 issued on November 9, 2004 by the State of California Attorney General.

Procedures: Test a sample of expenditures, including payroll expenditures and determine if the expenditures were properly expended on specific projects listed in the text of the ballot measure for Propositions S and Z. Verify that funds were generally expended for construction, renovation, furnishing and equipping of school facilities constituting authorized bond projects. In addition, verify funds were used to pay salaries of district employees were allowable per Opinion 04-110.

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SAN DIEGO UNIFIED SCHOOL DISTRICT
PROPOSITIONS S AND Z BOND PROGRAM
PERFORMANCE AUDIT
OBJECTIVES AND PROCEDURES

Objective: Determine if identified Propositions S and Z projects are real and exist.

Procedures: Select a sample of sites and perform site visits to determine whether the projects are real and exist.

Objectives: Verify that rates charged by professional service organizations through their billings were consistent with their contracted rates.

Procedures: Test a sample of invoices that were charged to the bond program and compared the amounts charged, employees charged, and position billing rates with the amounts specified in the original board approved contract. In addition, test the bid process was utilized in the selection process.

4. INTERNAL CONTROLS OVER FACILITIES PROCUREMENT

Objectives: Evaluate District internal controls over payment processing and the use of purchase orders in the procurement process for the purpose of determining if there are any deficiencies in the design of the internal control environment.

Procedures: Perform inquiries of management and walkthroughs of District internal controls.

5. DOCUMENT MANAGEMENT'S EFFORTS TO MAXIMIZE POTENTIAL FUNDING AND REDUCE PROGRAM COSTS

Objective: Document how the District identifies, applies for, and acquires non bond funded financing and other resources.

Procedures: Perform inquiries of District management and examine supporting documents to determine how the District identifies, applies for, and acquires non bond funded financing and other resources.

Objective: Document management's strategies to reduce program costs.

Procedures: Perform inquiries of District management and document management's strategies to reduce program costs, considering several approaches towards cost-control that District management has undertaken, including negotiation with professional service contractors, large volume purchases, value engineering, joint use agreements, and public and private partnerships.

Objectives: Document managements use of reusable facility plans as a cost savings measure.

Procedures: Perform inquiries of District management and inspect supporting documents to document the use of reusable facility plans as a cost saving measure.

Objectives: Document management's sustainability plan for the i21 Program.

Procedures: Perform inquiries of District management and examine supporting documentation to document management's sustainability plan for the i21 Program. In addition, we will inspect the i21 Quarterly report presented to the Board.

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SAN DIEGO UNIFIED SCHOOL DISTRICT
PROPOSITIONS S AND Z BOND PROGRAM
PERFORMANCE AUDIT
OBJECTIVES AND PROCEDURES

6. DOCUMENTATION OF PROGRAM MANAGEMENT PROCEDURES

Objectives: Document management's plan to monitor project planning and execution of projects.

Procedures: Perform inquiries of District management, examine supporting documents, and trace reports to source documentation to document management's plan to monitor project planning and execution of projects.

Objectives: Document management's plan to monitor the planning and execution of projects and test the accuracy of communicated project status to the ICOC and taxpayers.

Procedures Performed: Examine documents used by management to monitor the planning and execution of projects and communicate project status with the ICOC and taxpayers.

In order to determine whether the reports are consistent with one another and accurate relative to source documentation we will sample key data points (including contract name, number, vendor, amount, etc.)

Objectives: Document District procedures related to District management's program for quality control/quality assurance (QC/QA) and test to determine if the procedures meet the required procedural goals.

Procedures: Perform inquiries of District management and inspect documentation for the District's program for QC/QA review procedures.

Objectives: Document communication protocols and procedures between District departments outside of Facilities Planning and Construction (FPC).

Procedures: Perform inquiries of District management and document the communication protocols and procedures between District departments.

7. EVALUATION OF THE BOND ISSUANCE PROCESS

Objectives: Determine if the issuance of general obligation bonds was appropriately recorded in the District's general ledger.

Procedures: Examine journal entries and supporting documentation related to the issuance of the Election of 2008 – Proposition S and Proposition Z General Obligation Bonds, issued in the fiscal year ended June 30, 2017, if any.

8. DOCUMENT FRAUD RISK ASSESSMENT INQUIRIES AND THE RESULTS OF THE INQUIRIES

Objectives: Document any fraud risk factors noted through inquiry of District employees and those charged with governance.

Procedures: Perform inquiries of District employees and those charged with governance whether or not they were aware of any instances of fraud and their knowledge of any fraud risk factors.

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SAN DIEGO UNIFIED SCHOOL DISTRICT
PROPOSITIONS S AND Z BOND PROGRAM
PERFORMANCE AUDIT
OBJECTIVES AND PROCEDURES

9. SPECIAL INTEREST ITEMS

Objectives: Document management's plan for soliciting and monitoring the participation of local firms and workers in District projects.

Procedures: Perform inquiries of District management and inspected supporting solicitation documentation.

Objectives: Document the District's compliance with the Board of Education approved staffing plan.

Procedures: Perform inquiries with FPC management to document the District's compliance with the Board of Education approved staffing plan.

Objectives: Document the activities of Bond Oversight Committee.

Procedures: Perform inquiries with management and inspect ICOC meeting minutes and reports.

Objectives: Document management's plan to inform and engage community stakeholders about bond-funded projects.

Procedures: Perform inquiries with the Facilities Communications Supervisor, requesting support for communications protocols and procedures between District's departments as well as in regard to external communications.

Objectives: Document the total value of Major Repair and Renovation (MRR) expenditures through June 30, 2017.

Procedures: Perform inquiries with FPC management and examine supporting documentation regarding the status of MRR expenditures related to the Propositions S and Z expenditures.

Objectives: Document the Career Technical Education (CTE) program implementation and controls over reimbursement of excess state match funds.

Procedures: Perform inquiries with FPC management regarding the roll-out of CTE programs as part of Propositions S and Z program due to the State matching funds made available by the Office of Public School Construction, which dramatically cut costs to the program.

Inquire District fiscal services staff regarding control over reimbursement of excess State matching funds and document those controls.

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SAN DIEGO UNIFIED SCHOOL DISTRICT
PROPOSITIONS S AND Z BOND PROGRAM
PERFORMANCE AUDIT
OBJECTIVES AND PROCEDURES

9. SPECIAL INTEREST ITEMS (Continued)

Objectives: Determine if Proposition Z Charter School expenditures were made in accordance with the purposes outlined in the ballot language. Proposition Z set out a number of goals to provide quality facilities for all San Diego Unified School District students utilizing \$350 million in bond funds. The stated purpose of the local bond for charter schools includes all uses that were identified for traditional district schools, but a primary focus on:

- Site reconfiguration to better accommodate charter school co-location,
- Development of new facilities for charter schools,
- Consistent with the District's obligation under Proposition 39, provide classroom capacity, including furnishings and equipment, for in-district charter school students at a level comparable to students attending district-run schools, and
- Construction, reconstruction, rehabilitation or replacement of charter school facilities, including the furnishing and equipping of charter school facilities, or the acquisition of lease of real property for charter school facilities.

Procedures: Select a sample of charter school bond expenditures for testing and determine whether the expenditures were for permissible Proposition Z purposes in accordance with the ballot language and Board-approved priorities.

Objectives: Determine that Physical Plant Operations (PPO) communications protocols and procedures between facilities and PPO exist.

Procedures: Perform inquires of District management and inspect the communication protocol flowchart provided by the District.

Objectives: Determine if expenditures related to stadium lighting were included in the District's Propositions S and Z General Obligation Bond Fund expenditures.

Procedures: Perform inquires with facilities and inspect detailed expenditure reports for the fiscal year.