FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

# San Diego County Office of Education

## Extraordinary Audit of the San Ysidro Elementary School District

**Revised Final Report**

**July 8, 2019**

**Michael H. Fine**
Chief Executive Officer



Revised July 8, 2019

Paul Gothold, Ed.D., Superintendent
San Diego County Office of Education
6401 Linda Vista Road
San Diego, CA 92111-7319

Dear Superintendent Gothold:

In April 2018, the Fiscal Crisis and Management Assistance Team (FCMAT) and the San Diego County Office of Education entered into an agreement for FCMAT to provide an Assembly Bill 139 extraordinary audit of the San Ysidro Elementary School District, in accordance with Education Code Section 1241.5 (b). The county office had received allegations that possible fraud, misappropriation of funds or other illegal fiscal practices may have occurred at the San Ysidro Elementary School District.

The county office requested that FCMAT review transactions and relevant internal controls related to procurement and contractual commitments for facilities modernization and new construction projects. The period reviewed begins with fiscal year 2012-13 and continues through May of fiscal year 2017-18.

Based on a sample of transactions and records tested for this period, the review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's financial transactions. The study agreement states that FCMAT will focus on the following:

1. Project scope, authorization, project delivery method and procurement practices.
2. Bid processes including contractor and subcontractor selection and subsequent school board approval.
3. Method and application of contractor payments including internal auditing and school board approval.

The study agreement also states that FCMAT will perform the following:

1. Evaluate policies, procedures and internal controls for purchasing, contractual commitments, and vendor payments. Sample selections will include, but not be limited to, documents related to the bond program and construction management contracts.
2. Review sample selections of vendor payments and supporting documentation and verify compliance with established policy, procedures and applicable laws.

3. Review the source and use of bond proceeds and transactions, including any other debt instruments, and support documentation related to the source and use of these funds as considered necessary.

4. Determine if any of the San Ysidro School District local public officials, designated employees or "consultants to the organization who makes, participates in making, or acts in a staff capacity for making governmental decisions" as defined in the Political Reform Act (PRA) of 1974 (Government Code Sections 81000-91014) violated any conflict of interest disclosure regarding California conflict-of-interest laws. Review applicable PRA Form 700 filings for 2012-13 through 2017-18.

The study agreement also describes the transaction testing procedures used and details specific audit objectives, and is in Appendix C of this report.

This is a revised report issued subsequent to the receipt of additional information. FCMAT's original report on this subject was dated and delivered to the San Diego COE on May 8, 2019. The COE made the report public on May 9, 2019, and FCMAT posted the report on its website on May 10, 2019. Within hours of the initial posting, FCMAT removed the report from its website to provide time to review concerns expressed by several individuals and entities who initially contacted FCMAT on May 10, 2019 and continued contact through late June, 2019. These individuals and entities took exception to portions of the report; some provided additional and clarifying information in support of their objections.

It is important for readers to understand the purpose, scope, perspective, testing methodology and threshold of a review such as this.

Studies, reviews and audits performed by FCMAT are based on a specific scope agreed upon between FCMAT and its client. In the case of an AB 139 extraordinary audit, the client is always a county superintendent of schools. Allegations that prompt an AB 139 review are based on a district or charter school's operation. Although outside parties may be involved, the perspective and approach FCMAT takes in conducting its work is through the lens of legal and best practices related to the district's governance and operations. For example, if a vendor is selected by the district because there is a pre-existing relationship rather than as a result of a competitive process, the vendor is not FCMAT's focus and should not be faulted. FCMAT's identification and discussion of a deficiency is focused on the district's governance, policies and procedures that allowed for and facilitated such a selection and approval process.

The specific scope points for this report are outlined above.

It is FCMAT's obligation to constrain its review and reporting to the parameters of the scope. Although FCMAT's review may identify additional allegations and information that is possibly true, any such allegation or information needs to be measured against the scope and evaluated to determine if it is critical to reaching the conclusion FCMAT is tasked with in the applicable Education Codes and study agreement.

To accomplish this review's objectives, several common testing and analytical procedures were used to help analyze and understand the allegations and potential outcomes. Fieldwork consisted of gathering documents and other information pertaining to specific allegations, and interviewing potential witnesses and others with knowledge about the district's policies and procedures. FCMAT visited the district to conduct interviews, collect data and review documents. The FCMAT study team interviewed district board members, current administrative personnel and business office staff to obtain information related to general business practices and events that transpired during the period under review, including potential financial mismanagement, abuse, or fraud. During interviews, FCMAT asked questions about the allegations; policies and procedures; transactions and activities; authorization levels; job duties; and the internal control structure including control activities, lines of authority, and oversight of district business activities. Open-ended questions were designed to elicit information about other possible irregularities related to the scope of the audit.

FCMAT's work focused on determining whether there is sufficient evidence to indicate that fraud, misappropriation of funds, or other illegal fiscal activities may have occurred. To investigate the allegations, the team evaluated policies, procedures and other internal control activities, and tested transactions recorded by the district to verify the compliance and effectiveness of those controls.

Sample testing and examination results are intended to provide reasonable but not absolute assurance about whether transactions and financial activity are accurate and whether fraud, misappropriation of funds or other illegal fiscal activities may have taken place during the period under review. FCMAT does not reach a conclusion, nor report, on information from one source alone. FCMAT seeks to triangulate information from multiple sources, identifying similarities and consistency in data and information that demonstrate a pattern. This is especially true when conducting interviews and relying on information provided in an interview setting. This process and standard were followed for this report.

Despite well-practiced testing practices, FCMAT may not be able to corroborate allegations others may make in an interview setting. FCMAT does not possess subpoena power or the ability to require interviewees to speak under oath. Irrespective of the similarities and consistency of information collected, it is FCMAT's duty to ensure all perspectives are heard and considered. Subsequent to the issuance of the original report, FCMAT received information from others expressing a different viewpoint. In response, FCMAT conducted additional fieldwork and an interview. FCMAT has considered those alternative viewpoints and additional information in revising its report.

The purpose of an AB 139 review is to determine whether sufficient evidence exists to support the assertion that fraud, misappropriation of funds or other illegal fiscal activities may have occurred that should be reported to the local district attorney's office for further investigation. This is a relatively low threshold and is based on the expert judgment of the study team that conducts the review in accordance with the agreed upon scope. FCMAT is clear in its reports that the existence of fraud, misappropriation of funds, or other illegal practices are solely the purview of the courts. This report notes that many deficiencies in governance, policy and procedures existed at the district during the timeframe reviewed. In this regard, FCMAT serves as a reporting party only.

Based on additional information provided since FCMAT's original report was issued on May 8, 2019, FCMAT has made certain revisions, rejected some contentions, and, where appropriate, provided clarifying language. With these changes, the report is now reissued and reposted. Highlights of the revisions are provided below.

- Pages 47-48 — Minor revisions for clarity were made to the discussion about the contracting for, and use of general obligation bond proceeds for, a power purchase agreement and the subsequent early termination fees paid under that agreement.
- Pages 48-49 — As part of FCMAT's analysis of sampled expenditures, the report refers to a contract the district had with California Financial Services to reconstruct financial data extending back to 2004. In the original report FCMAT questioned whether a reconstruction extending that far back in time provided any meaningful value to the district, but ultimately that determination is the district's responsibility, not FCMAT's. However, several irregularities are noteworthy in

the context of the scope of the review related to contractual commitments, vendor payment procedures and use of bond proceeds. One of FCMAT's concerns is that a partial year of data was used, creating a potential immediate conflict with annual reports the district made. The district's general ledger is always the official record of accounts. The district was unable to produce the reconstructed data provided by California Financial Services. FCMAT noted that although California Financial Services, in its report of completed work, stated that it had reconstructed data back to May 1, 2004, it billed for work extending back an additional two years and two months, to March 1, 2002. It is the 2002 date that supports the total amount that was paid to the vendor, based on the agreed annual contract fee. The vendor states that it completed all the work back to the 2002 date, despite the 2004 date appearing on supporting paperwork. The discrepancy in the amount of work is further complicated by the district's lack of issuance of a properly approved purchase order at the time the work commenced. Instead, the district issued the purchase order after the invoice from the vendor was received, matching the purchase order to the invoice. FCMAT's main concerns are that the description of completed work did not match the invoice, and that the district paid for it without proper purchasing procedures. Finally, FCMAT questioned the propriety of using general obligation bond funds to pay for work not specifically related to authorized bond projects. Again, the source of funds used to meet an obligation is not the vendor's responsibility, but that of the district's governing board.

- Pages 64-66 — EcoBusiness Alliance, later (and for all further purposes) known as Manzana Energy, has been a vendor to the district for a solar energy project. After the district terminated its original contract with the firm, Manzana Energy sued for wrongful contract termination and obtained a substantial judgment. Subsequently, through negotiation and mediation, the parties entered into a contract addendum for the solar energy project.

  FCMAT reviewed the revised agreement with regard to the district's business processes and judgment. Solar energy projects do not require sealed, competitive bidding; however, the law allows and sound business practice supports a request for competitive proposals, which the district did not use. This includes each of the parties involved in the transaction, such as financial advisors, legal counsel and other consultants.

  Based on FCMAT's analysis, the price per unit of energy under the revised agreement was significantly more than other districts have been paying. The basis for the higher-than-market value was not determined for the original report. Subsequently, FCMAT interviewed Mr. Castanares, president of Manzana Energy, who stated the additional cost was due to a variety of reasons, including the loss of benefits to Manzana Energy such as tax incentives and rebates that would have accrued during the 25-year term of the agreement, sunk costs and carrying costs from the original 2008 agreement, and redesign costs. The decision to enter into the original power purchase agreement in October 2008 and the subsequent decision to terminate the agreement early in 2011 were the responsibility of the district. The district's inadequate management of the contract terms resulted in questionably high costs. Further, as detailed in the original report, FCMAT believes that the use of the district's general obligation bond funds may not have been proper.

- Pages 65, 75-76 — The report refers to interviews with multiple individuals who have alleged that Mr. Castanares made, or through influence with the San Ysidro Education Association (a district employee union) caused to be made, contributions to two individuals who became district board members. FCMAT's practice is to state when allegations are made by multiple individuals and then to research facts associated with the allegations. However, the implication that some may draw from the allegations is that FCMAT is suggesting that these board members were elected and then pressured or encouraged the contract addendum approval as a result of these alleged contributions. Mr. Castanares, one of the two board members, and the Association leadership categorically deny these allegations. Additionally, as noted in the original report, the extent of any documentation to corroborate such allegations that FCMAT found in the course of research was that the Association had created a political action committee and provided funding to the two board members in question. As further noted in the original report, none of the district's vendors (including Manzana Energy) or individuals associated with vendors (including Mr. Castanares) were identified as having made political contributions to any board member candidates in any of the elections that occurred during the five years reviewed. According to Mr. Castanares, the extent of his involvement in the campaigns was to provide advice and to support the efforts of the two board member candidates, but he reports that he neither made any monetary contributions nor indirectly influenced to whom the Association's monetary contributions were provided. FCMAT did not obtain any campaign finance disclosure reports that indicate monetary contributions were made from Manzana Energy or its president. Further, Mr. Castanares reported that he was asked about the same or similar topics during a district attorney's office investigation and at a county grand jury hearing, and in both cases he denied all such allegations. FCMAT is unaware of any resolution or final determination as to those inquiries and/or investigations.

FCMAT is unable to resolve the conflict between the allegations shared with us and the denials. However, FCMAT found no corroborating evidence that supports the allegations against Mr. Castanares, the board members or the Association. Clarity regarding the findings is included in this revised report.

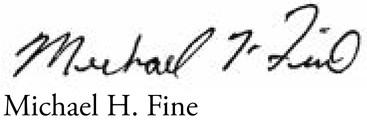
As a result, FCMAT does not accuse Mr. Castanares, the Association or the district's board members of any wrongdoing with regard to any campaign contributions or undue political pressure.

Finally, FCMAT does not have any basis to contend that Mr. Castanares' purchase of a local newspaper, its reporting and its editorial content, were used to improperly influence any board member to approve the revised solar energy contract addendum or to work for or against the election of any board candidate for that purpose. The original reference to the acquisition of the newspaper is immaterial to FCMAT's findings and is removed from this revised report.

This revised final report contains the study team's findings and recommendations.

We appreciate the opportunity to serve you, and we extend thanks to all the staff of the San Diego County Office of Education and the San Ysidro Elementary School District for their cooperation and assistance during fieldwork.

Sincerely,



Michael H. Fine
Chief Executive Officer

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# About FCMAT

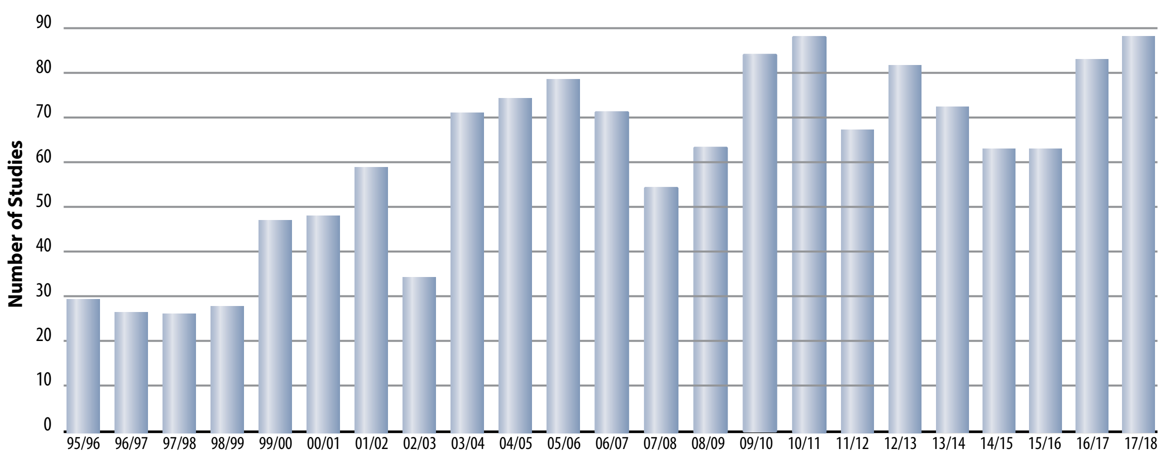
FCMAT's primary mission is to assist California's local K-14 educational agencies to identify, prevent, and resolve financial, human resources and data management challenges. FCMAT provides fiscal and data management assistance, professional development training, product development and other related school business and data services. FCMAT's fiscal and management assistance services are used not just to help avert fiscal crisis, but to promote sound financial practices, support the training and development of chief business officials and help to create efficient organizational operations. FCMAT's data management services are used to help local educational agencies (LEAs) meet state reporting responsibilities, improve data quality, and inform instructional program decisions.

FCMAT may be requested to provide fiscal crisis or management assistance by a school district, charter school, community college, county office of education, the state Superintendent of Public Instruction, or the Legislature.

When a request or assignment is received, FCMAT assembles a study team that works closely with the LEA to define the scope of work, conduct on-site fieldwork and provide a written report with findings and recommendations to help resolve issues, overcome challenges and plan for the future.

FCMAT has continued to make adjustments in the types of support provided based on the changing dynamics of K-14 LEAs and the implementation of major educational reforms.

**Studies by Fiscal Year**




FCMAT also develops and provides numerous publications, software tools, workshops and professional development opportunities to help LEAs operate more effectively and fulfill their fiscal oversight and data management responsibilities. The California School Information Services (CSIS) division of FCMAT assists the California Department of Education with the implementation of the California Longitudinal Pupil Achievement Data System (CALPADS). CSIS also hosts and maintains the Ed-Data website (www.ed-data.org) and provides technical expertise to the Ed-Data partnership: the California Department of Education, EdSource and FCMAT.

FCMAT was created by Assembly Bill (AB) 1200 in 1992 to assist LEAs to meet and sustain their financial obligations. AB 107 in 1997 charged FCMAT with responsibility for CSIS and its statewide data management work. AB 1115 in 1999 codified CSIS' mission.

AB 1200 is also a statewide plan for county offices of education and school districts to work together locally to improve fiscal procedures and accountability standards. AB 2756 (2004) provides specific responsibilities to FCMAT with regard to districts that have received emergency state loans.

In January 2006, Senate Bill 430 (charter schools) and AB 1366 (community colleges) became law and expanded FCMAT's services to those types of LEAs.

On September 17, 2018 AB 1840 was signed into law. This legislation changed the how fiscally insolvent districts are administered once an emergency appropriation has been made, shifting the former state-centric system to be more consistent with the principles of local control, and providing new responsibilities to FCMAT associated with the process.

Since 1992, FCMAT has been engaged to perform more than 1,000 reviews for LEAs, including school districts, county offices of education, charter schools and community colleges. The Kern County Superintendent of Schools is the administrative agent for FCMAT. The team is led by Michael H. Fine, Chief Executive Officer, with funding derived through appropriations in the state budget and a modest fee schedule for charges to requesting agencies.

# Introduction

## Background

The San Ysidro Elementary School District is located south of San Diego along the southern border of California and serves approximately 4,578 students in grades K-8 at five elementary schools, two middle schools and one preschool and child development program. The district includes San Ysidro and some adjacent areas of San Diego. According to data from the California Department of Education (CDE), student enrollment decreased each year from 2012-13 through 2018-19, from 5,235 students in 2012-13 to 4,578 students in 2018-19. For 2017-18, 90.02% of the district's students qualified for free or reduced-priced meals, were English learners, or were foster youth.

The district has a five-member governing board whose members are elected to four-year terms that are staggered so that two or three members are on the general election ballot every two years.

The district has had nine superintendents and interim superintendents over the last decade. The majority of these leadership changes happened abruptly, with interim superintendents entering during a challenging time, followed by appointment of a permanent superintendent. Superintendents appointed as interim and permanent have typically begun working on whatever issues appeared urgent at the time, without full institutional knowledge or the ability to gather insight from the prior leadership. The district has had no strategic vision in place to ensure continuity.

In May 2016, a report released by the San Diego County Grand Jury found that the district failed to implement a strong system of internal controls, that board members disregarded their fiduciary responsibilities, and that there was no oversight of expenditures of funds from general obligation bonds and certificates of participation. The grand jury also found that the district had amassed millions of dollars of long-term debt but had little to show for it. One of the grand jury's recommendations was to conduct an audit of the district's finances. In April 2018, the San Diego County Office of Education requested that FCMAT conduct an Assembly Bill (AB) 139 extraordinary audit to determine if fraud, misappropriation of funds or other illegal fiscal activities may have occurred at the district.

## Study Guidelines (AB 139 Audit Authority)

Education Code Section 1241.5(b) permits a county superintendent of schools to review or audit the expenditures and internal controls of any school district in his or her county if he or she has reason to believe that fraud, misappropriation of funds or other illegal fiscal practices may have occurred that merit examination. On completion of the audit, if evidence exists that fraud or misappropriation of funds may have occurred, Education Code Section 42638(b) states, "…the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney."

The purpose of a fraud audit is to determine whether sufficient evidence exists to support the assertion that fraud, misappropriation of funds or other illegal fiscal activities may have occurred that should be reported to the local district attorney's office for further investigation.

Based on allegations and information provided to the San Diego County Office of Education, the county office asked FCMAT to assign professionals to conduct an AB 139 extraordinary audit under the provisions of Education Code Section 1241.5(b). FCMAT and the county office entered into an agreement for these services on April 11, 2018. As part of the review, FCMAT reviewed documents and interviewed district management, staff and board members to determine whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred that warrant further investigation by the local district attorney's office.

FCMAT visited the district on August 28-30, 2018 to conduct interviews, collect data and review documents. Following fieldwork, FCMAT continued to review and analyze documents. This report is the result of those activities.

In writing its reports, FCMAT uses the Associated Press Stylebook, a comprehensive guide to usage and accepted style that emphasizes conciseness and clarity. In addition, this guide emphasizes plain language, discourages the use of jargon and capitalizes relatively few terms.

## Study Team

The study team was composed of the following members:

Jennifer Noga, CFE
FCMAT Intervention Specialist

Melinda Pure*
FCMAT Consultant

Lori Raineri
President
Government Financial Strategies

Keith Weaver
Client Services Director
Government Financial Strategies

John Lotze
FCMAT Technical Writer

Each team member reviewed the draft report to confirm accuracy and achieve consensus on the final recommendation.

# Scope, Procedures and Fieldwork

Fraud audits have many components including obtaining and examining original source documents; corroborating documents and information through third-party sources when possible; interviewing potential witnesses; gaining an understanding of internal controls applicable to the scope of the fieldwork; and assessing factors such as intent, capability, opportunity, and possible pressures or motive.

There are many different types of fraud. Occupational fraud, including asset misappropriation and corruption, may occur when employees are in positions of trust and have access to assets. Embezzlement occurs when someone who is lawfully entrusted with property takes it for his or her personal use. Common elements in all fraud include the following:

- Intent, or knowingly committing a wrongful act
- Misrepresentation to accomplish the act
- Reliance on weaknesses in the internal control structure
- Concealment of the act

The focus of this review is to determine, and report to the county office, whether the district has adequate management controls for reporting and monitoring financial transactions and whether fraud, misappropriation of funds or other illegal fiscal activities may have occurred during the period under review.

## Procedures

To accomplish this review's objectives, several testing and analytical procedures were developed to help analyze and understand the allegations and potential outcomes. FCMAT reviewed, analyzed and tested business records including cash disbursements, general ledger activity, vendor payment history, financial reports (including disclosures made to the bond market and a sample ballot containing Proposition C,  the district's bond measure), board policies and administrative regulations, board meeting agenda materials and meeting minutes, bid documents, contracts, County of San Diego election and tax records, and other relevant documents.

The district's detailed general ledger, warrant register and other reports containing detailed transaction data for fiscal years 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 201718 (through May 21, 2018) were exported from the PeopleSoft and Legacy financial systems, and obtained directly from the county office. FCMAT reviewed both specifically selected (based on information from interviews) and randomly selected disbursement checks from accounting reports, as well as supporting documents requested.

## Fieldwork

Fieldwork consists of gathering documents and other information pertaining to specific allegations, establishing an audit plan, interviewing potential witnesses and assembling evidence from internal and external sources, performing various audit procedures to determine whether fraud may have occurred, evaluating the loss associated with the alleged fraud, and determining who was involved and how it may have occurred.

FCMAT visited the district on August 28-30, 2018 to conduct interviews, collect data and review documents. The FCMAT study team interviewed district board members, current administrative personnel and business office staff to obtain information related to general business practices and events that transpired during the period under review, including potential financial mismanagement, abuse or fraud. During interviews, FCMAT asked questions about the allegations; policies and procedures; transactions and activities; authorization levels; job duties; and the internal control structure including control activities, lines of authority, and oversight of district business activities. Open-ended questions were designed to elicit information about other possible irregularities related to the scope of the audit.

FCMAT's work focused on determining whether there is sufficient evidence to indicate that fraud, misappropriation of funds, or other illegal fiscal activities may have occurred. To investigate the allegations, the team evaluated policies, procedures and other internal control activities, and tested transactions recorded by the district to verify the compliance and effectiveness of those controls.

Sample testing and examination results are intended to provide reasonable but not absolute assurance about whether transactions and financial activity are accurate and whether fraud, misappropriation of funds or other illegal fiscal activities may have taken place during the period under review. Testing procedures and noted exceptions are detailed in the Substantive Testing section of this report.

# Definitions of Fraud, Occupational Fraud, and Internal Control

## Fraud

Fraud can include an array of irregularities and illegal acts characterized by intentional deception and misrepresentations of material facts.

## Occupational Fraud

Occupational fraud and abuse is defined as "the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets." (*Corporate Fraud Handbook: Prevention and Detection*, 2nd Ed., 2007, by Joseph T. Wells). The three main types of occupational fraud are asset misappropriation, corruption, and financial statement fraud.

Asset misappropriation includes cash skimming, falsifying expense reports, payroll, accounts payable or inventory documents, or forging company checks. Corruption schemes involve one or more employees using their influence in business transactions to obtain a personal benefit that violates their duty to the employer or the organization; conflicts of interest fall into this category. Financial statement fraud includes the intentional misstatement or omission of material information in financial reports.

Occupational fraud is one of the most difficult types of fraud to detect. The most common method of detection is receiving tips from employees, customers, and anonymous sources; this accounts for 40% of all fraud detection. According to the 2018 *Report to the Nations on Occupational Fraud and Abuse*, prepared by the Association of Certified Fraud Examiners, Inc. (ACFE), corruption schemes for local entities accounted for 31% of occupational fraud cases reported, with a median loss of $92,000.

Survey responses on page 31 of the above-mentioned ACFE report indicate that in 30% of all cases, "a simple lack of controls was the main factor that enabled the fraud to occur, while another 19% of cases occurred because the perpetrator was able to override the controls that had been put in place."

## Internal Control

Internal controls are among the most important aspects of any fraud prevention program. Managers in a position of authority have a higher standard of care to establish the ethical tone and serve as examples to other employees. Employees with administrative responsibilities have a fiduciary duty to the organization to ensure that activities are conducted in compliance with all applicable board policies, laws, regulations and standards of conduct. Management personnel are entrusted to safeguard assets and ensure that internal controls function as intended.

The accounting industry defines "internal control" as it applies to organizations, including school agencies, as follows:

> . . . a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of

objectives relating to operations, reporting, and compliance.
[Committee of Sponsoring Organizations of the Treadway Commission - May 2013]

The reference to achievement of objectives refers to an organization's planning, organizing, directing and performing of routine tasks related to operations, and monitoring performance.

An organization establishes control over its operations by setting goals, objectives, budgets and performance expectations. Several factors influence the effectiveness of internal controls, including the social environment and how it affects employees' behavior, the availability and quality of information used to monitor the organization's operations, and the policies and procedures that guide the organization. Internal controls help an organization obtain timely feedback on its progress in meeting operational goals and guiding principles, producing reliable financial reports, and ensuring compliance with applicable laws and regulations.

Internal controls are the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal controls provide reasonable assurance that operations are effective and efficient, financial information is reliable, and the organization complies with all applicable laws and regulations.

Internal controls provide the framework for an effective fraud prevention program. An effective internal control structure includes board policies and administrative regulations established by the governing board and operational procedures used by staff, adequate accounting and information systems, the work environment, and the professionalism of employees. The five components of internal control and summaries of the characteristics of each are shown in the table below.

| Internal Control Component | Characteristics |
|---|---|
| Control Environment | The set of standards, processes and structures that provide the basis for carrying out internal control across an organization. This includes the integrity and ethical values of the organization. Commonly referred to as the moral tone of the organization, the control environment includes a code of ethical conduct; ethics policies; hiring and promotion guidelines; proper assignment of authority and responsibility; oversight by management, the board or an audit committee; investigation of reported concerns; and effective disciplinary action for violations. |
| Risk Assessment | Identification and assessment of events that could hinder or prevent achievement of the organization's objectives, and development of strategies to react in a timely manner. |
| Control Activities | Actions established by policies and procedures to enforce the governing board's directives. These include actions by management to prevent and identify misuse of the district's assets, including preventing employees from overriding controls in the system. |
| Information and Communication | Ensures that employees receive information regarding policies and procedures and understand their responsibility for internal control. Provides opportunity to discuss ethical dilemmas. Establishes clear means of communication within an organization to report suspected violations. |
| Monitoring Activities | Ongoing monitoring to ascertain whether all components of internal control are present and functioning, and to ensure deficiencies are evaluated and corrective actions are implemented. |

Each of the five components listed above and their related principles must be present and functioning in an integrated manner to be effective. An effective system of internal controls can provide reasonable but not absolute assurance that the organization will achieve its objectives.

## Control Environment

The internal control environment establishes an organization's moral tone. Though intangible, it begins with the leadership and consists of employees' perception of the ethical conduct displayed by the governing board and executive management.

The control environment is a prerequisite that enables other components of internal control to be effective in achieving the organization's goals and objectives and preventing and/or deterring fraud and illegal acts. It sets the tone for the organization, provides discipline and control, and includes factors such as integrity, ethical values, and competence of employees.

The control environment can be weakened significantly by a lack of experience in financial management and/or lack of knowledge of internal control.

## Control Activities

Control activities are a fundamental element of internal control and are a direct result of policies and procedures designed to prevent and detect misuse of a district's assets, including preventing any employee from overriding system controls. Transaction control activities are implemented to reduce the risk in specific business processes. Examples of control and transaction control activities include the following:

1. Performance reviews, which compare actual data with expectations. In accounting and business offices this most often occurs when budgeted amounts are compared with actual expenditures to identify variances, and then followed up on with budget transfers to prevent overspending.

2. Information processing, which includes the approvals, authorizations, verifications and reconciliations needed to ensure that transactions are valid, complete and accurate.

3. Physical controls, which are the processes and procedures designed to safeguard and secure assets and records.

4. Supervisory controls, which assess whether the transaction control activities performed are accurate and in accordance with established policies and procedures.

5. Segregation of duties, which consists of processes and procedures that ensure no employee or group is placed in a position to be able to commit and conceal errors or fraud in the normal course of duties. This includes separating the custody of assets, the authorization or approval of transactions affecting those assets, the recording or reporting of related transactions, and the execution of the transactions. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction, and for independent review of the work.

Independent financial auditors' reports on internal control over financial reporting are based on an audit of financial statements performed in accordance with government auditing standards. In planning and performing independent financial audits, auditors consider internal control over financial reporting to determine audit procedures that are appropriate to the circumstances. Therefore, an auditor may express an opinion on the financial statements but not on the effectiveness of an organization's internal controls. The auditor's consideration of internal controls is not designed to identify all deficiencies in internal controls that might be significant or constitute a material weakness. Therefore, material weaknesses or significant deficiencies may exist that were not discovered during the audit.

A deficiency in internal controls exists when the design or operation of a control does not allow management or employees, in the normal course their assigned duties, to prevent, detect and/or correct misstatements in a timely manner. A material weakness is a deficiency or combination of deficiencies in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or not be detected and corrected in a timely manner.

A significant deficiency is an internal control deficiency or combination of deficiencies that is less severe than a material weakness yet important enough to merit attention from those charged with governance.

The following is a partial list of deficiencies and omissions that can cause internal control failures:

1. Failure to adequately segregate duties and responsibilities related to authorization.
2. Failure to limit access to assets or sensitive data (e.g., cash, fixed assets, personnel records).
3. Failure to record transactions, resulting in lack of accountability and the possibility of theft.
4. Failure to reconcile assets with the correct records.
5. Failure to detect unauthorized transactions, resulting in skimming, embezzlement or larceny.
6. Lack of monitoring or implementation of internal controls by the governing board and management, or because personnel are not qualified.
7. Collusion among employees where little or no supervision exists.

An effective system of internal controls will include what are typically referred to as hard controls, such as segregation of duties, limiting access to cash, management review and approval, and reconciliations, as well as soft controls such as management tone, performance evaluations, training programs, and maintaining established policies, procedures and standards of conduct.

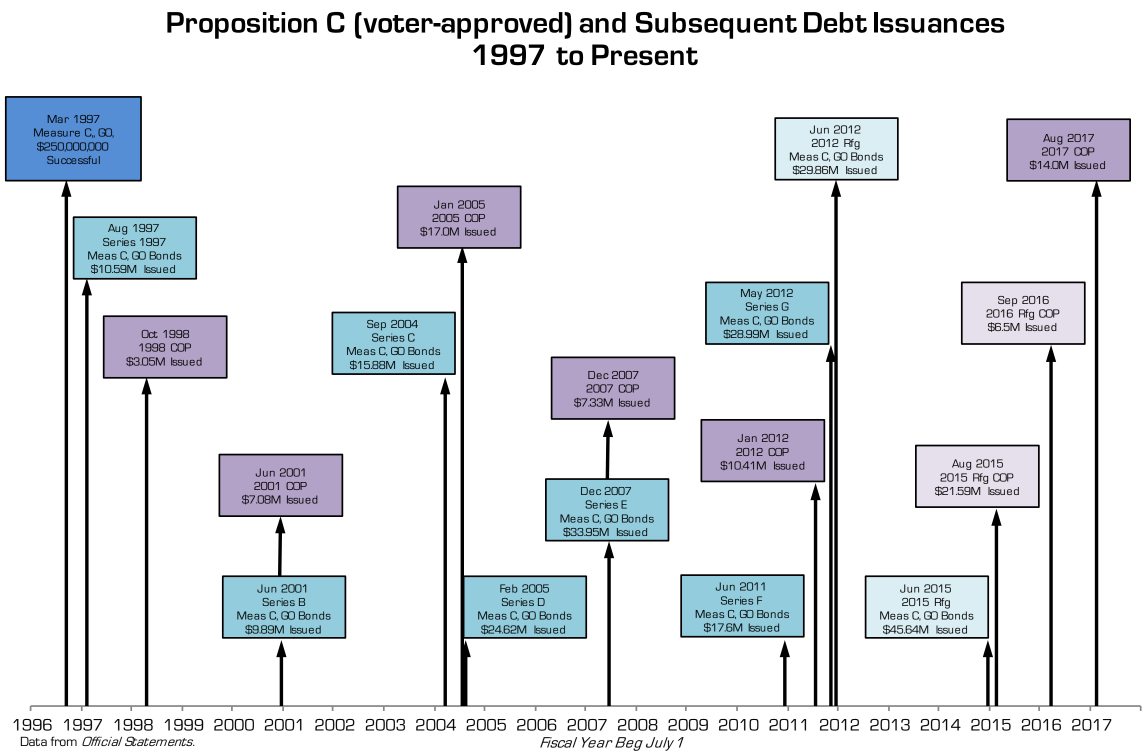
Although all employees in a school district have some responsibility for internal controls, the superintendent, governing board and other key management personnel have a fiduciary duty and responsibility to safeguard the district's assets and thus should have the highest of ethical standards.

# Findings

## Debt Issuance Practices

### Financing Transactions

During a special election in March 1997, voters in the San Ysidro Elementary School District approved Proposition C, which authorized the sale of $250 million in general obligation bonds for the purpose of acquiring and improving real property for authorized school purposes. Since then, the district has issued long-term debt 17 times via publicly-offered securities, both as issuances of bonds authorized by Proposition C and as separate non-voter-approved debt instruments. The timeline below shows the issuances from 1997 through 2017.

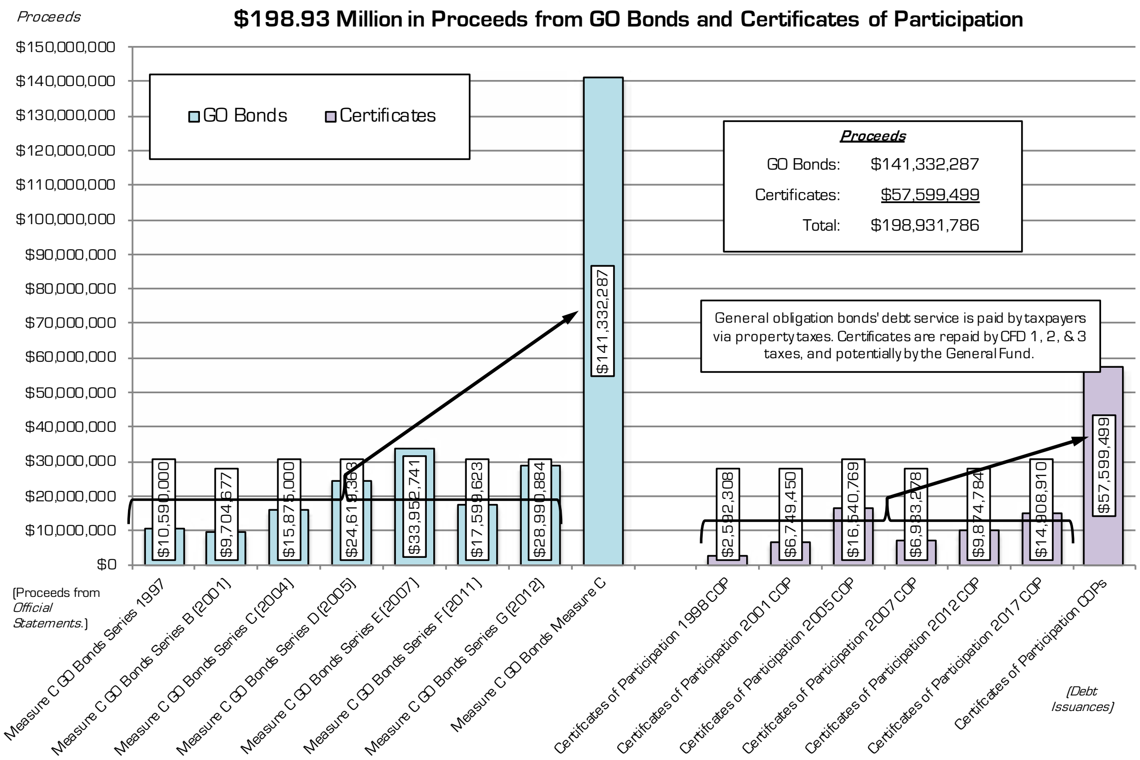



(Key to abbreviations: GO = general obligation bond; Rfg = refinancing; COP = certificate of participation)

The frequency of issuances raises the question of whether the district performed sufficient long-term financial planning regarding its facilities needs so debt could be issued efficiently and appropriately. In addition, issuing bonds frequently rather than infrequently typically increases the cost of issuance because it prevents a district from benefiting from economy of scale.

These 17 issuances included 13 issuances that borrowed new money (rather than refinancing existing debt) as outlined in the chart below, which generated almost $200 million for facilities ($141.3 million from general obligation bonds and $57.6 million from certificates of participation), as well as four refinancings.

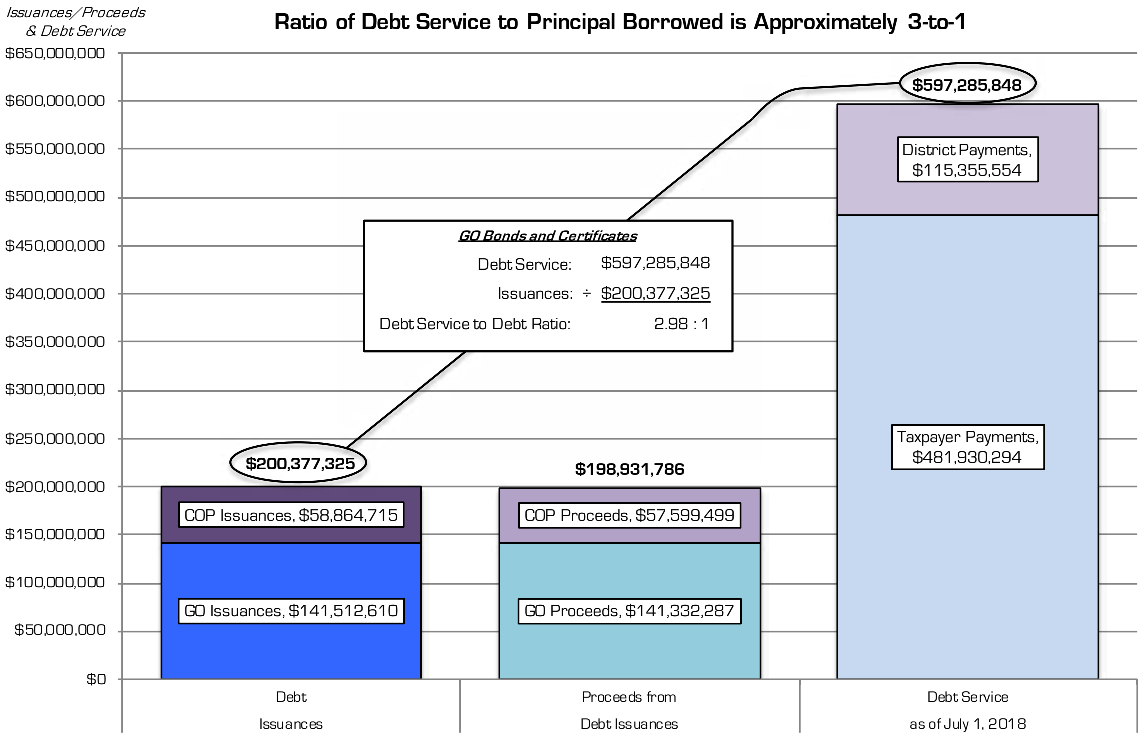
Debt issuance totals differ slightly from debt proceeds totals because issuance totals indicate the amount a district borrows, while proceeds totals indicate the amount a district actually receives after paying various costs.




The State of California's Office of Public School Construction's *School Facility Program Handbook*, published in April 2018, indicates that the current new construction basic grant amount is $11,567 per elementary pupil and $12,234 per middle school pupil, which is to represent 50% of the cost of new construction; thus, the full cost would be approximately $23,134 per elementary student and $24,468 per middle school student. Based on these state funding figures, local educational agencies could expect today's base funding amounts for new school construction for elementary and middle school students to be less than $25,000 per student. School Facility Program base funding amounts do not include funding for site development, automatic fire detectors, alarms and sprinklers, multilevel construction, therapy areas, or special education classrooms. Many districts find that their costs exceed state funding amounts. Therefore, base funding amounts should not be viewed as cost estimates but as an approximate guide against which costs can be compared.

Even though new construction funding is for enrollment growth, if one uses the district's 2017-18 total student enrollment of 4,733, not accounting for any other funding, the $200 million in proceeds from general obligation bonds and certificates of participation (COPs) over the past 21 years amounts to $42,256 in school facilities per current student in nominal dollars (that is, dollars at their worth in the present economy, without taking into account inflation). This amount per student, invested over 21 years, is approximately 169% of the state's current estimated funding amounts for new construction. The district's expenditures may have included costs for site acquisition, site preparation and other such items. If the $42,256 were adjusted for inflation to make these expenditures more comparable to today's estimated costs, the disparity between the district's expenditures and industry averages would be even greater.

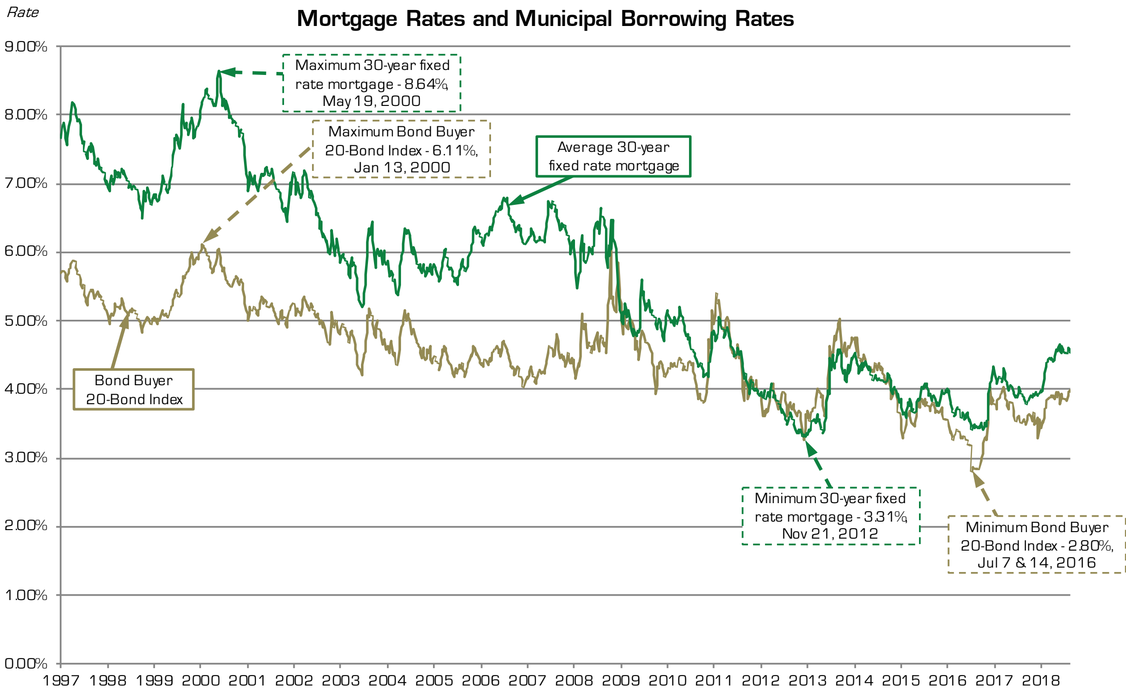
The district issued both general obligation bonds ($142 million) and certificates of participation ($59 million) to generate the nearly $200 million in proceeds. As shown in the chart below, the district's total ratio of debt service (repayment) to principal borrowed is almost 3-to-1, which is high.




Issuances, proceeds, & debt service from *Official Statements*. Please note, data above reflects debt service currently owed, which incorporates refinancings of prior issuances. Without refinancings, total debt service would be $664,424,444 ($545,625,974 for Proposition C GO Bonds and $118,798,471 for certificates of participation).

By comparison, for a fully amortized 30-year mortgage with monthly payments to have a repayment ratio of 3-to-1, funds would have to be borrowed at an annual interest rate of 9.4%.

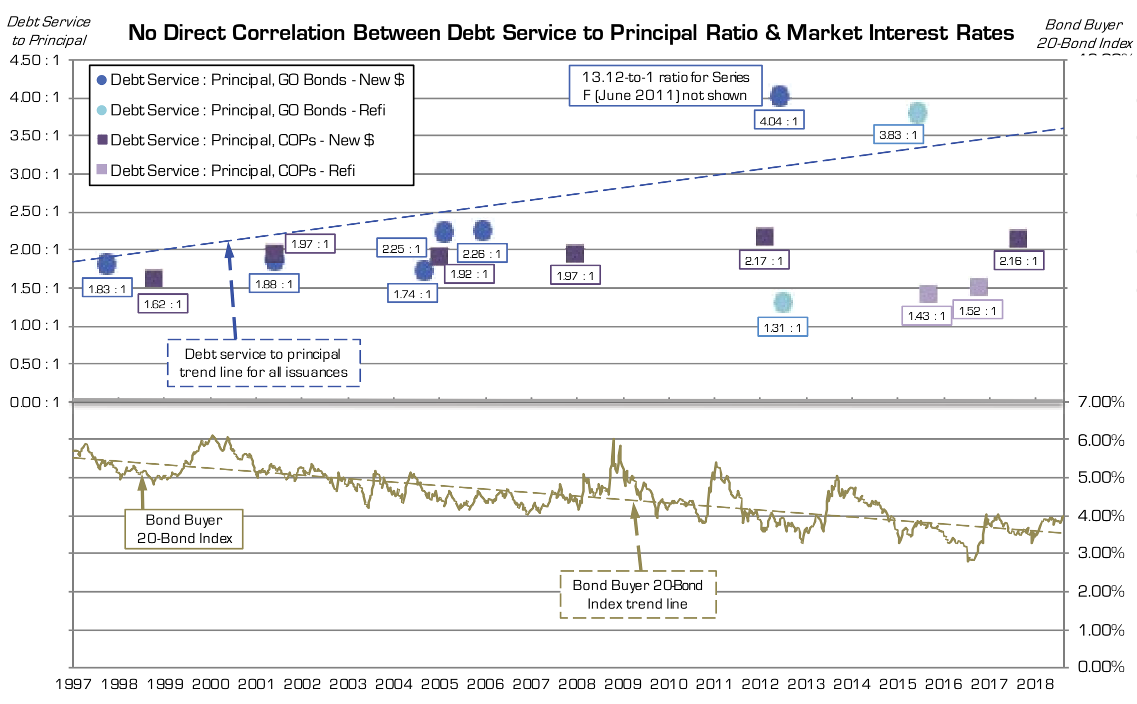
Since March 4, 1997, when the district's Proposition C general obligation measure passed, 30-year mortgage rates have been as high as 8.64% and as low as 3.31% (per the St. Louis Federal Reserve's published data titled, "30-Year Fixed Rate Mortgage Average in the United States." During the same time period, the Bond Buyer's 20-Bond Index (a standard municipal bond benchmark) had a high of 6.11% and a low of 2.80%. The chart below compares the average 30-year fixed rate mortgage with the Bond Buyer's 20-Bond Index.




The 20-Bond Index is the average yield on the 20th year maturity for 20 general obligation bonds with an average rating equivalent to Moody's Investors Service's "Aa2" rating and Standard & Poor's Rating Service "AA". The Index is weekly as of each Thursday. Mortgage rate data from St Louis Fed website (https://fred.stlouisfed.org/series/mortgage30us/#0).

Municipal bond rates are typically lower than mortgage rates because municipal bonds are tax-exempt to the lender.

Furthermore, as shown in the chart below, although market interest rates have generally declined over the past 21 years, the district's borrowing costs have not consistently followed this trend.



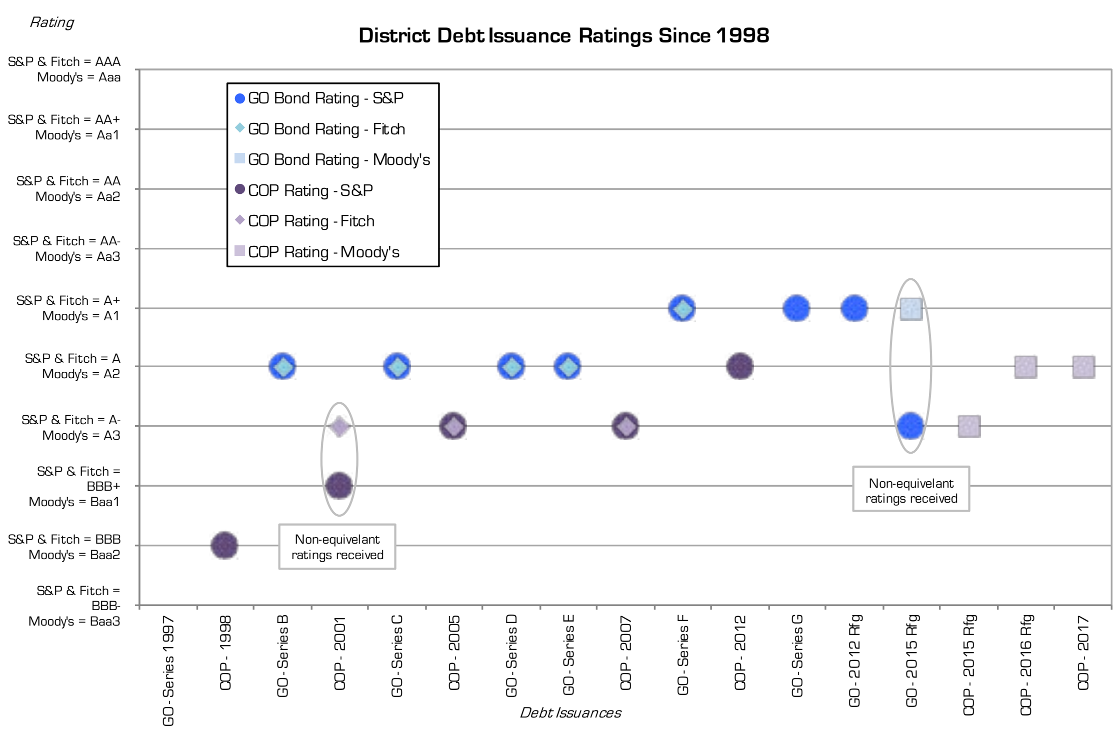

Debt service to principal ratio from *Official Statements*. The 20-Bond Index is the average yield on the 20th year maturity for 20 general obligation bonds with an average rating equivalent to Moody's Investors Service's "Aa2" rating and Standard & Poor's Rating Service's "AA" rating. The Index is weekly as of each Thursday.

This chart also shows that the district's ratio of debt service to principal ranged from a low of 1.31-to-1 to a high of 13.12-to-1.

The chart below shows the assigned underlying credit ratings as shown in the Official Statement for each financing. Credit ratings on the district's securities (general obligation bonds and certificates of participation) at the time of issuance generally increased from the first issuance through the 2012 general obligation bond issuance. In 2015, the district's general obligation ratings from Moody's Investors Service and Standard & Poor's Global Ratings differed (known as a split in the finance industry), which happens occasionally; however, the difference was two full levels (or notches, in finance industry terms), which is rare.

From 2015 through 2017, the district obtained underlying ratings only from Moody's for three issuances of certificates of participation (COPs). As shown in the chart below, Moody's upgraded the district's COPs rating for the 2016 COPs refinancing. Moody's August 12, 2016 rating rationale attributed the upgrade to the pledge of community facilities district (CFD) revenues. According to the Official Statements, all CFD revenues had been pledged to COPs issuances since at least 2007 (this is discussed in more detail later in this report), so the rating upgrade in 2016 appears unusual.

Although the district's credit ratings increased overall from the first general obligation bond issue in 1997 as shown below, the higher credit ratings have not resulted in lower debt service costs, as indicated earlier and shown in the chart above.




Ratings are the underlyng ratings from the *Official Statements*. Series 1997 GO bonds did not list an underlying rating.

In 2017, the district received three rating opinions from Moody's Investors Service and Standard & Poor's Global Ratings. On July 17, 2017, Moody's Investors Service assigned an A2 rating to the proposed issuance of $14,000,000 of COPs (as shown in the chart above), affirmed the A2 rating on all outstanding certificates of participation, and noted the A1 rating on the district's general obligation bonds.

On September 27, 2017, S&P Global Ratings, citing the district's failure to make the scheduled September 1, 2017 COP debt service payment, placed both of the district's credit ratings (which were A for general obligation bonds and A- for COPs) on "CreditWatch with negative implications," and stated:

> The CreditWatch placement reflects our potential changed view of the district's management practices and internal controls. If we discover that the district's management practices have weakened significantly or if a decline in internal controls, flexibility, or liquidity has contributed to the interest payment delinquency, we could take a negative rating action.

A negative rating action came on December 21, 2017: S&P Global Ratings lowered the district's credit ratings two notches. The general obligation bond rating was lowered to BBB+, and the certificates of participation rating was lowered to BBB, with negative outlook. S&P Global Ratings stated the following:

> . . . the conditions that precipitated the delayed payment raise significant concerns about the district's prior management and historical control processes and the potential for additional problems being uncovered going forward.

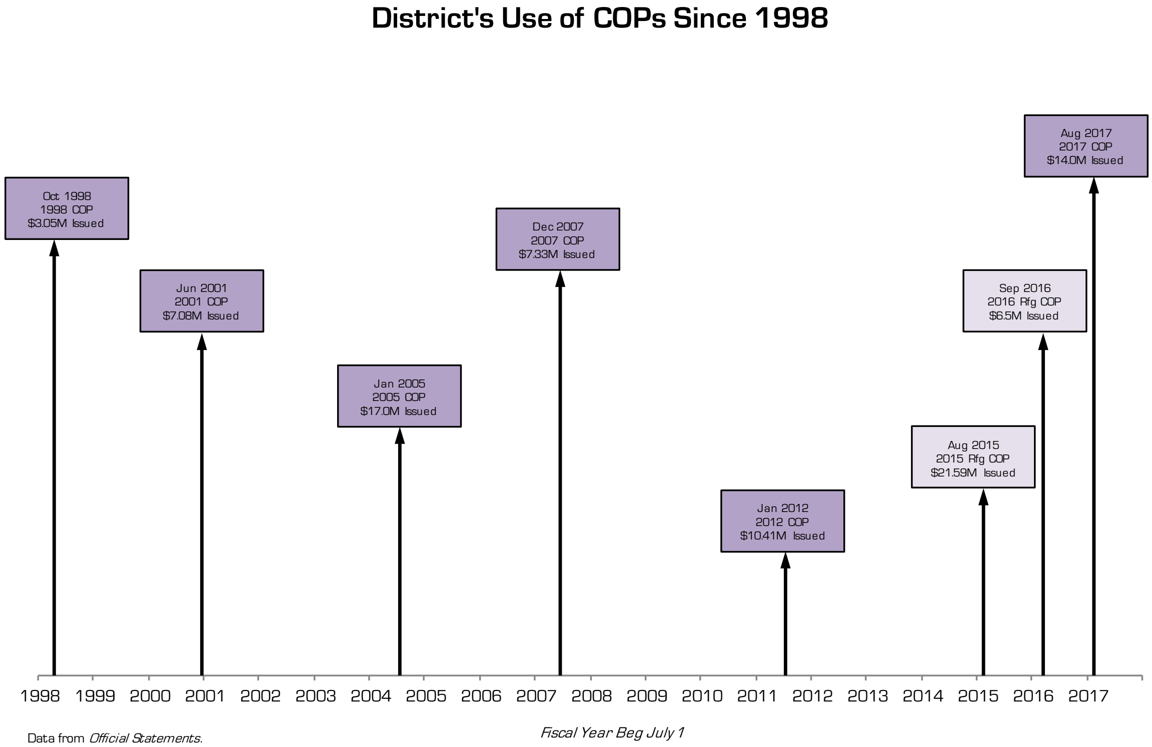
and

> . . . the negative outlook reflects our view of the risk that unforeseen events stemming from decisions made by the prior administration could pose fiscal stress or hinder the district's ability to make timely debt service payments going forward.

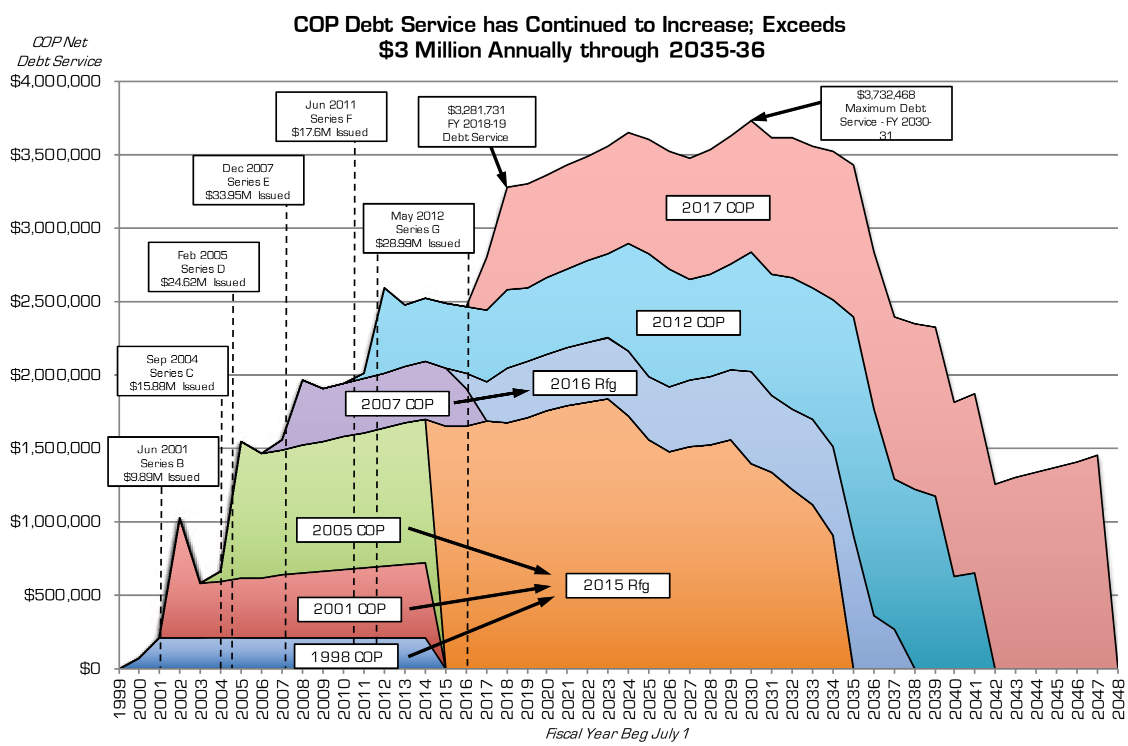
The district has a lengthy continuing record of noncompliance with requirements for disclosures related to its outstanding municipal securities, and since 2015 (during which time there have been four financings in just three years) Official Statements for the financings have noted that the district has not complied with its securities disclosure responsibilities. Some of these failures also occurred before 2015, and they remain ongoing. As recently as September 19, 2018, the district's dissemination agent posted a notice on the Municipal Securities Rulemaking Board's EMMA website (the official location for such disclosures) regarding a credit rating downgrade related to a bond insurer. The event being noticed occurred on January 17, 2018. Securities law requires timely disclosure, and the general practice is to make such notices within 10 days. The time lag in this case was more than eight months.

## Certificates of Participation Analysis

Since 1998, the district has issued COPs eight times: six issues of new money borrowing totaling $58.9 million, and two refinancings, or refundings.




Data from *Official Statements*.




Data from *Official Statements*.

The district's 2018-19 budget states in its criteria and standards that its annual debt service is $3,746,741 from 2017-18 through 2020-21. This figure does not correspond to a specific debt service amount, but the budget is sufficient to cover the scheduled annual debt service.

As shown in the table below, it appears that the certificates of participation were issued primarily to capitalize future expected special tax revenue from CFDs 1, 2 or 3, and by the 2007 borrowing, all three. In 2012, the Official Statement specifically described redevelopment revenue as a source of repayment. For all COPs issued, if the identified sources of repayment were insufficient, the district had an obligation to budget for payments, which placed at risk both the district's general fund and its financial condition.

***Revenue Source Designated for Repayment of Borrowing***

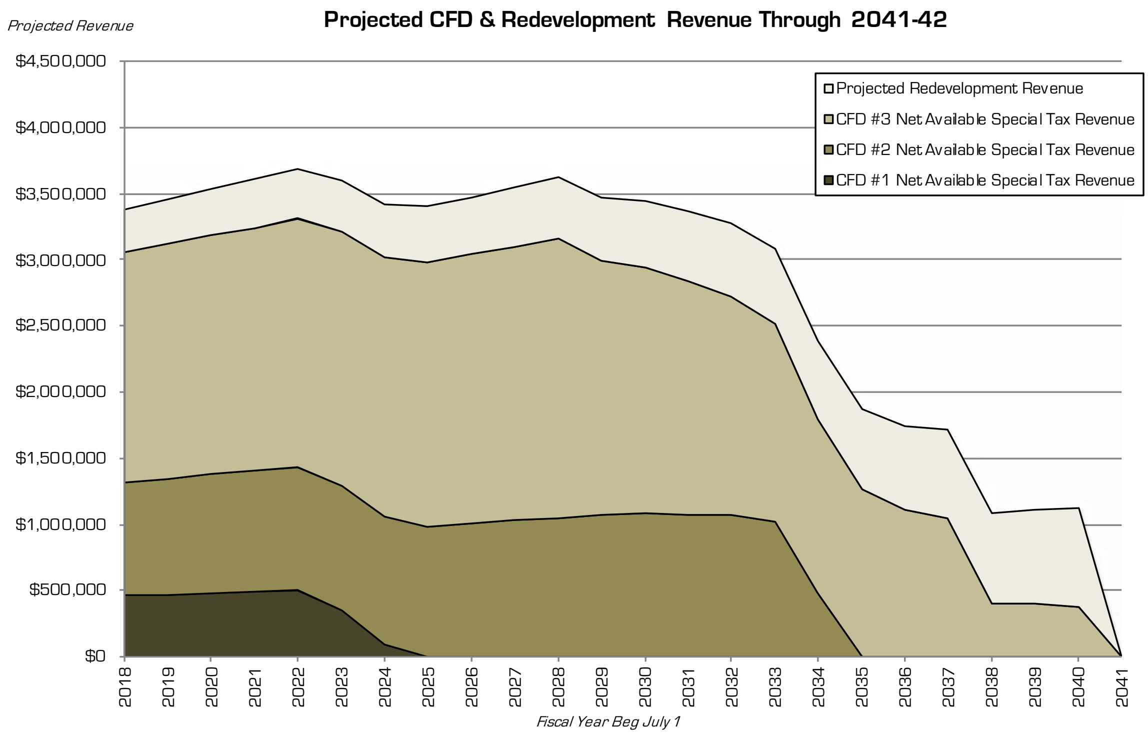
| COP | CFD #1 Revenue | CFD #2 Revenue | CFD #3 Revenue | Redevelopment Revenue | Covenant to Budget Lease Payments |
|---|---|---|---|---|---|
| 1998 | X | | | | X |
| 2001 | X | | X | | X |
| 2005 | | X | X | | X |
| 2007 | X | X | X | | X |
| 2012 | X | X | X | X | X |
| 2015 Rfg | X | X | X | | X |
| 2016 Rfg | X | X | X | | X |
| 2017 | | | | | X |

Revenue sources as described in *Official Statements*.

Arrows denote refinancings: 1998, 2001, & 2005 COPs refinanced by 2015 refinancing COP; 2007 COP refinanced by 2016 refinancing COP.

All three CFDs were formed to include specific newly developing areas. Community Facilities District 1 has a base year of 1992-93, with taxation started in 1998-99; CFD 2 has base years of 1997-98 and 2000-01 (the second date is due to an annexation), and taxation began in 2001-02; and CFD 3 has a base year of 1998-99, with first taxation in 1999-00. These CFDs were intended to generate special tax revenue to address the need for facilities to serve students coming from the newly developing areas. The district receives redevelopment revenue in accordance with state law from areas within the district subject to diversion of general property tax revenues for redevelopment purposes. With respect to CFDs, it is more typical to issue special tax bonds payable only from special tax revenues, though it is not uncommon for COPs to be used to capitalize redevelopment revenues. In the district's case, it appears that redevelopment revenue was an added source of repayment to allow the district to continue borrowing despite financial stress. However, repayment sources for the COP are not limited to the identified budget resources, and they created significant liabilities affecting overall financial condition and in particular put the district's general fund at risk.

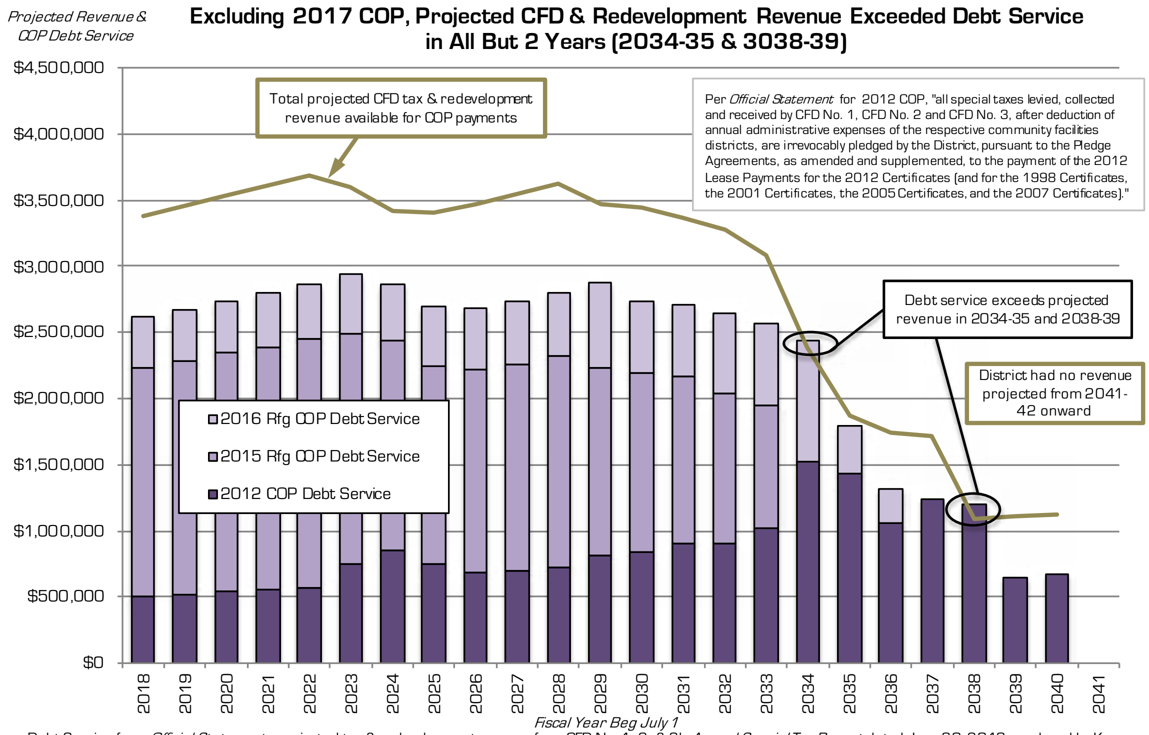
The chart below shows the district's projection of the identified funds available.




Projected tax & redevelopment revenue from CFD No. 1, 2, & 3's *Annual Special Tax Report*, dated June 30, 2018, produced by Key Analytics. Tax revenue only listed through 2040-41.

The chart below shows that prior to the issuance of the 2017 COPs, the district's annual revenue projection was sufficient to cover debt service in all but two years, and those two deficiencies were minimal. However, the fact that there appears to be more than sufficient revenue to prepay some of the existing certificates using cash (thus eliminating the projected shortfall and reducing interest costs overall) raises questions about how the district's management was planning to budget these revenue sources.

With the exception of the 2017 COPs, which are discussed later in this report, most of the district's certificates were issued with 10-year call options. This does not indicate a plan to use the projected revenue to reduce debt as soon as possible. In addition, both the 2015 and 2016 refundings maintained the same final terms as the original certificates, which means the district missed opportunities to schedule faster repayment in accord with its revenue projection.



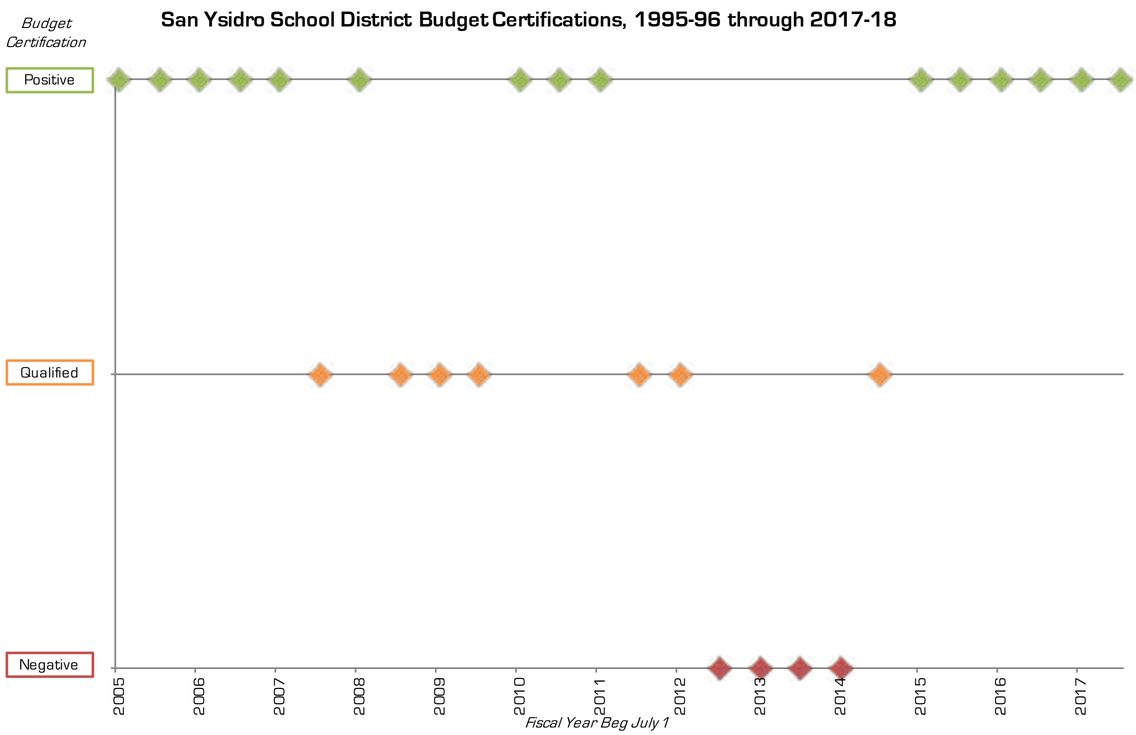

Debt Service from *Official Statements*; projected tax & redevelopment revenue from CFD No. 1, 2, & 3's *Annual Special Tax Report*, dated June 30, 2018, produced by Key Analytics. Tax revenue only listed through 2040-41. Debt service is based on certificate year (ending September 1) for cash flow purposes.

Because of the risk COPs pose to fiscal solvency, a school district is prohibited from issuing them in any fiscal year in which it has a qualified or negative budget certification for the current or prior year, unless the county office of education determines that repayment is probable. Education Code 42133 states the following:

> (a) A school district that has a qualified or negative certification in any fiscal year may not issue, in that fiscal year or in the next succeeding fiscal year, certificates of participation, tax anticipation notes, revenue bonds, or any other debt instruments that do not require the approval of the voters of the district, nor may the district cause an information report regarding the debt instrument to be submitted pursuant to subdivision (e) of Section 149 of Title 26 of the United States Code, unless the county superintendent of schools determines, pursuant to criteria established by the Superintendent of Public Instruction, that the district's repayment of that indebtedness is probable.

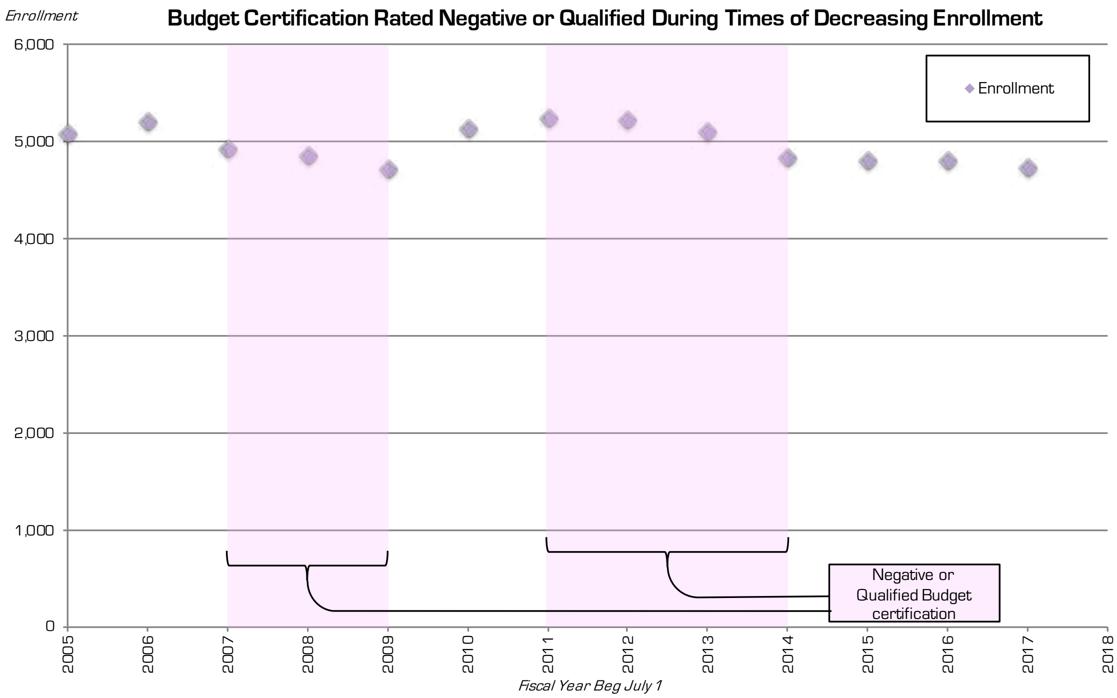
In addition, since January 2009 all school districts have been required to notify the county office of education and the county auditor at least 30 days before their governing board approves an issuance of COPs. The county office of education and the county auditor may then comment publicly to the governing board regarding the district's ability to repay the obligation (Education Code 17150.1).

The chart below shows that 11 of the district's 16 budget certifications during fiscal years 2007-08 through 2014-15 were qualified or negative, indicating financial challenges during this time.




Notes: two certifications are shown each year listed because each year has a "first interim" certification and a "second interim" certification. Year indicates fiscal year beginning July 1. Per California Department of Education Certification of Interim Financial Reports (www.cde.ca.gov/fg/fi/ir/interimstatus.asp).

The majority of the district's general fund revenue is based on student attendance, and its negative and qualified budget certifications occurred during periods of declining enrollment, as shown in the chart below.




Enrollment data from 2007-08 to 2017-18 from California Department of Education (http://dq.cde.ca.gov/dataquest/content.asp); data from 1987-88 to 2006-07 from Series G *Official Statement*, citing San Ysidro School District.

During this eight-year period (fiscal years 2007-08 through 2014-15) there were two issuances of new money COPs (2007 and 2012) that totaled more than $17.74 million and added $37.04 million of COPs payment liabilities to the district's balance sheets. The 2012 COPs included convertible capital appreciation bonds with a conversion date of September 1, 2026. The use of capital appreciation bonds, even with a conversion to current interest bonds, is both expensive and a sophisticated transaction.

As shown in the chart above, based on the district's budget certifications, the county superintendent of schools was required to determine whether repayment was probable for the issuance of the 2012 and 2015 certificates before the issuances could proceed.

FCMAT's review of documentation confirms that the county superintendent of schools reviewed the district's 2012 COPs prior to issuance. However, that review did not include a finding that the repayment was probable; rather, it confirmed that two of the assumptions were reasonable. For the 2015 COPs, which were a refinancing of existing debt, the county superintendent of schools determined that repayment was probable.

In 2016, the district issued COPs to refinance existing debt. The San Diego County Office of Education reviewed this in accordance with Education Code 42133 and found that the district had the ability to repay the obligation.

In 2017, the district issued COPs for $14 million, with annual payments beginning at $700,000 per year and increasing each year to almost $1.5 million in the 30th year. FCMAT reviewed four documents that describe the plan for this borrowing and the borrowing itself. These are listed in the table below with pertinent information from each.

***Information Provided to District Regarding 2017 Certificates of Participation***

| **Date** | **May 5, 2017** | **July 7, 2017** | **August 24, 2017** | **January, 2018** |
|---|---|---|---|---|
| Source Document | Letter from Deputy Superintendent Sanchez-Macias to Interim County Superintendent Velasquez | Credit Rating Presentation Prepared by California Financial Services | 2017 Certificates of Participation Official Statement | School Facilities Funding Programs, Funding Program Budget Overview and Payment Amounts Prepared by CFS' Key Analytics Division |
| Funding Needed | $ 13,400,000 | $ 13,400,000 | $ 14,908,910 | |
| Principal to be Borrowed | $ 12,600,000 | $ 14,000,000 | $ 14,000,000 | $ 14,000,000 |
| Annual Debt Service | | | | |
| Minimum (1st Year) | $ 630,000 | $ 630,000 | $ 713,611 | $ 700,000 |
| Maximum (30th Year) | $ 1,338,750 | $ 1,338,750 | $ 1,491,000 | $ 1,455,500 |
| Shortfall to be Budgeted in 1st Year | $ 450,000 | $ 295,000 | N/A | $ 455,000 |
| Prepayment Sources | - State Grants<br>- 2018 Bond Measure | - State Matching Grants<br>- 2018 Bond Measure<br>- Remaining 1997 G.O. Bonds | "The District will covenant to budget and appropriate Lease Payments in each year...from any source of legally available funds, and...include all Lease Payments in its annual budgets..." | |
| Annual Payment Sources | - RDA Tax Increment Revenues<br>- Other Capital Facilities Revenues<br>- Surplus General Fund Annual Revenues | - Remaining CFD Special Tax Revenues<br>- Remaining RDA Tax Increment Revenues<br>- Other District Revenue Contributions | - Annual Appropriation | - RDA Revenues<br>- General Fund Revenues<br>- General Fund Balance |
| Data Listed by: | Debt Service Year | Debt Service Year | Debt Service Year | Fiscal Year |

As the table above shows, neither the intended sources of repayment nor the payment amounts were presented consistently, which led to a lack of clarity. It appears that the district viewed this borrowing as bridge financing to possibly be repaid early from two or three sources.

One source for prepayment of the certificates, though insufficient for full prepayment, was $5.7 million in potential state grant funding. In the preceding table, California Financial Services describes the district as being *eligible* for these funds, but it is not clear whether the district had applied for them. Two other repayment sources cited in the above chart were the unused general obligation bond authority from 1997's Proposition C and a not yet called for new bond measure in 2018. In 2017, the district was operating on a waiver of Education Code 15268, which limits all bonds outstanding to no more than 1.25% of the assessed value of the tax base. The waiver in place at that time allowed the district to go as high as 3% through fiscal year 2021-22. In 2017, the district was at 2.23%. Tax rates were higher than the $100 limit stated in Proposition C, at $102.66 per $100,000 of assessed value. Thus it was questionable whether the district would be able to issue enough bonds from Proposition C or from a new measure (which would have to be approved by the governing board for the ballot and then approved by voters). None of the material presented related to the repayment plan for the 2017 certificates discussed these questions.

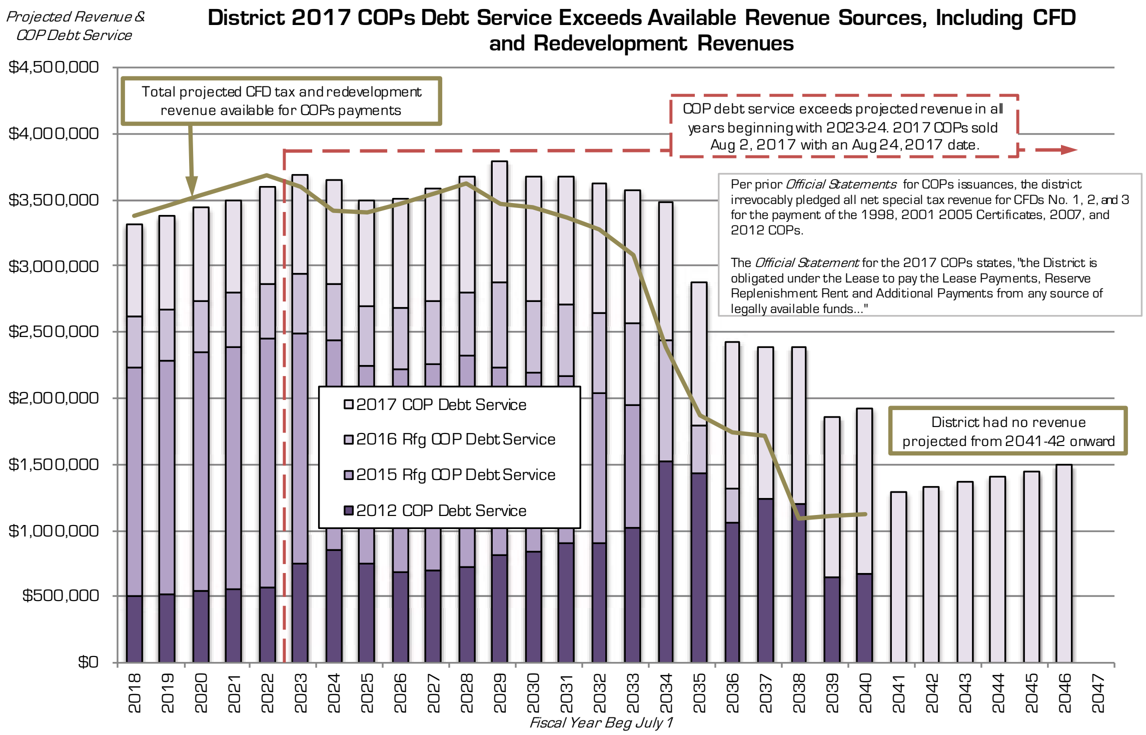
Because of the uncertainty about the potential prepayment sources and the lack of probability analysis, referring to this borrowing as a bridge financing seems inappropriate. In addition, the first call date on the certificates is September 1, 2022, five years after issuance, despite representations that the possible sources of prepayment would be available in 2018 or 2019; this indicates some doubt about the prepayment sources. Moody's Investors Service's Credit Opinion dated July 17, 2017 acknowledged this uncertainty, noting the "inability to issue future GO debt to refund outstanding COPs in accordance with the district's financing plan" and stating, "debt service coverage for COPs falls below sufficient amount and or general fund support is needed." Moody's stated that both these factors could lead to a credit rating downgrade, and noted that there were no applicable factors that could lead to an upgrade. This raises doubts about whether the district's governing board was given sufficient information to approve the borrowing.

The district's ability to borrow for the early repayment of the 2017 certificates, or any other reason, was severely impaired by its credit downgrade following its missed payment on other outstanding COPs (discussed earlier) just one month after the 2017 sale.

In May and July 2017, when the borrowing was under consideration, the first year debt service was presented as $630,000, although it turned out to be $700,000 (111% of the estimate) when the certificates were sold in August. However, interest rates were declining as the sale date approached: the Bond Buyer's 20-Bond Index was at 3.82% at the beginning of May 2017, dropped to 3.52% by the end of July, and ranged from 3.57% to 3.50% in August.

In accordance with Education Code 17150.1, the district provided a 30-day notice to the interim county superintendent of schools. The county superintendent of schools' letter in response, dated June 1, 2017, stated, "the district might need to make expenditure reductions to offset the cost of the loan repayment." The importance of this is brought into focus by the questions raised by the district's 2017-18 adopted budget (discussed below).

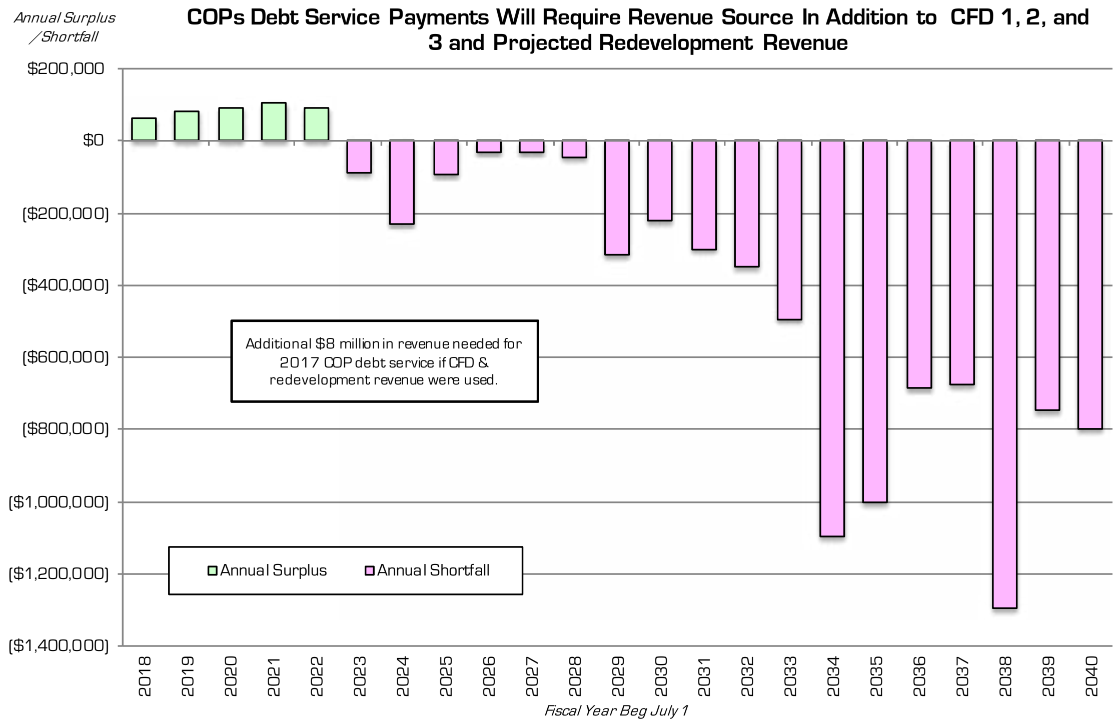
As the chart on the following page shows, because of the uncertainty about the possible early repayment of the 2017 certificates, the question of affordability depended on the district's ability to make payments from its general fund, or from other revenue not yet identified.




Debt Service from *Official Statements;* projected tax and redevelopment revenue from CFD No. 1, 2, & 3's *Annual Special Tax Report*, dated June 30, 2018 produced by Key Analytics. Tax revenue only listed through 2040-41, while debt service for 2017 COP ends Sept. 2047. Debt service is based on certificate year (ending September 1) for cash flow purposes.

The district's 2017-18 adopted budget raises a question of whether the district had sufficient understanding of the commitment it was making at the time of borrowing. The budget did not accurately show the expected debt service for the COPs. As the prior chart indicates, annual debt service was approaching $3.5 million, but the amount shown in the budget for 2017-18 through 2019-20 was less than $2.7 million. The district also stated that the funding sources used to pay long-term commitments would not decrease or expire before the end of the long-term commitment. This was questionable for an adopted budget as of July 1, given the clear intent to issue COPs that extended long-term commitments beyond the possible expected term of the funding sources.

The chart below is based on the district's 2018 revenue projection and shows that the district's expected shortfall of available funds for payment on outstanding COPs is substantial and could reach a cumulative total of approximately $8 million during fiscal years 2023-24 through 2040-41.

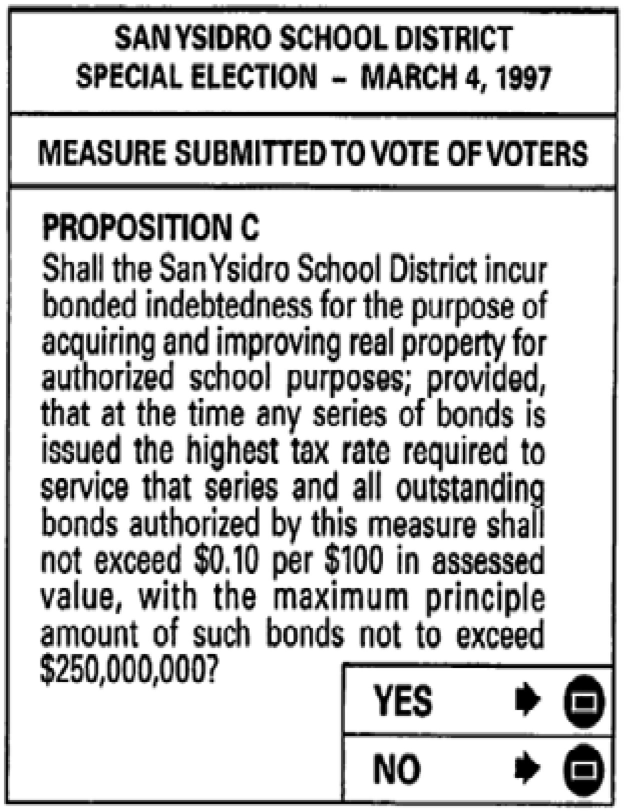



Debt Service from *Official Statements;* projected tax & redevelopment revenue from CFD No. 1, 2, & 3's *Annual Special Tax Report*, dated June 30, 2018, produced by Key Analytics. Tax revenue only listed through 2040-41, while debt service for 2017 COP ends Sep 2047. Debt service is based on certificate year (ending September 1) for cash flow purposes.

Many school districts take on long-term debt to meet their facility needs. However, when a school district has a substantial general obligation bond program (substantial in that the district is exceeding its general obligation bond capacity and has a high tax rate), it is unexpected to see the general fund put at risk for facilities funding purposes.

## General Obligation Bonds Analysis

District voters approved Proposition C in 1997 by the then-required two-thirds majority; the measure was presented to voters in the ballot question below.



SAN YSIDRO SCHOOL DISTRICT
SPECIAL ELECTION – MARCH 4, 1997

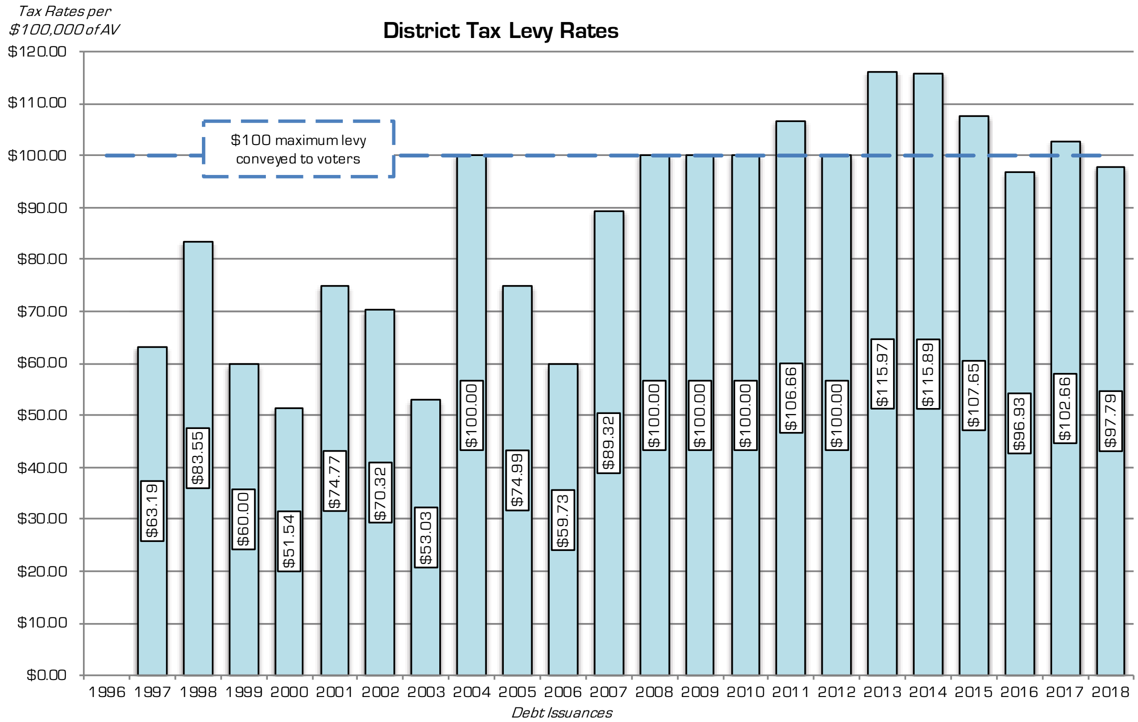
MEASURE SUBMITTED TO VOTE OF VOTERS

PROPOSITION C
Shall the San Ysidro School District incur bonded indebtedness for the purpose of acquiring and improving real property for authorized school purposes; provided, that at the time any series of bonds is issued the highest tax rate required to service that series and all outstanding bonds authorized by this measure shall not exceed $0.10 per $100 in assessed value, with the maximum principle amount of such bonds not to exceed $250,000,000?

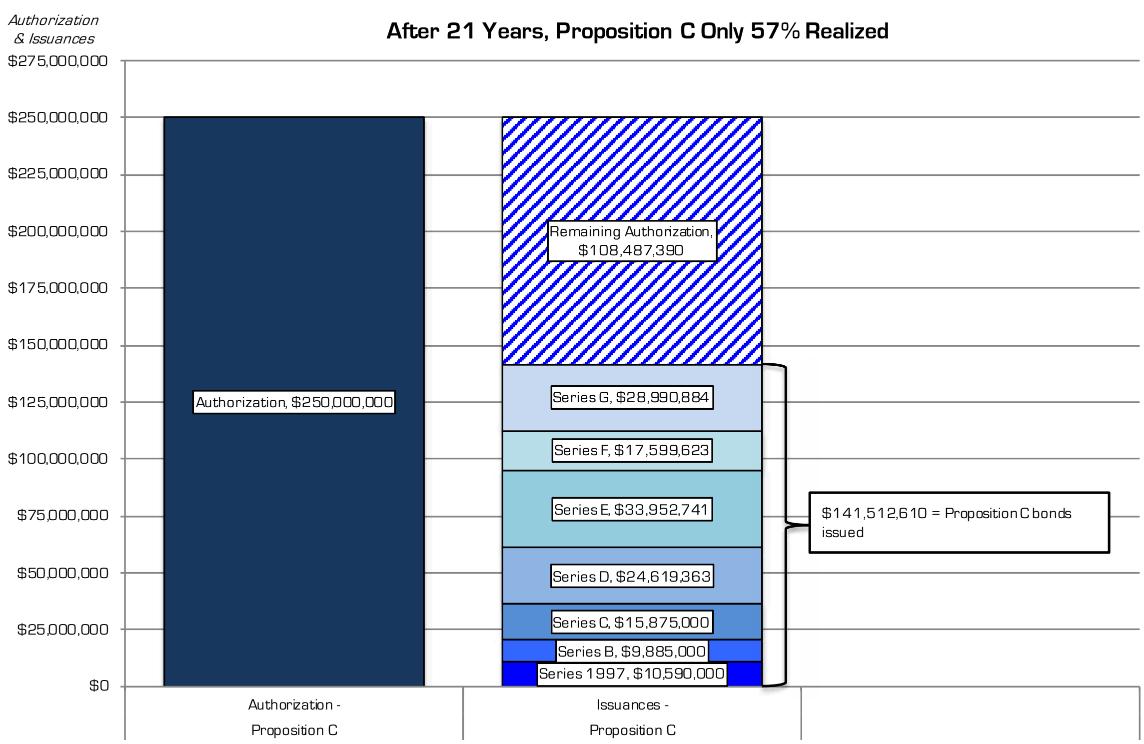
YES

NO

The district put forth the measure with a tax rate limit of $0.10 per $100 of assessed value (equivalent to $100 per $100,000 of assessed value, as it is more commonly expressed today). However, the chart below shows that actual tax rates have exceeded $100 per $100,000 five times since 1997.

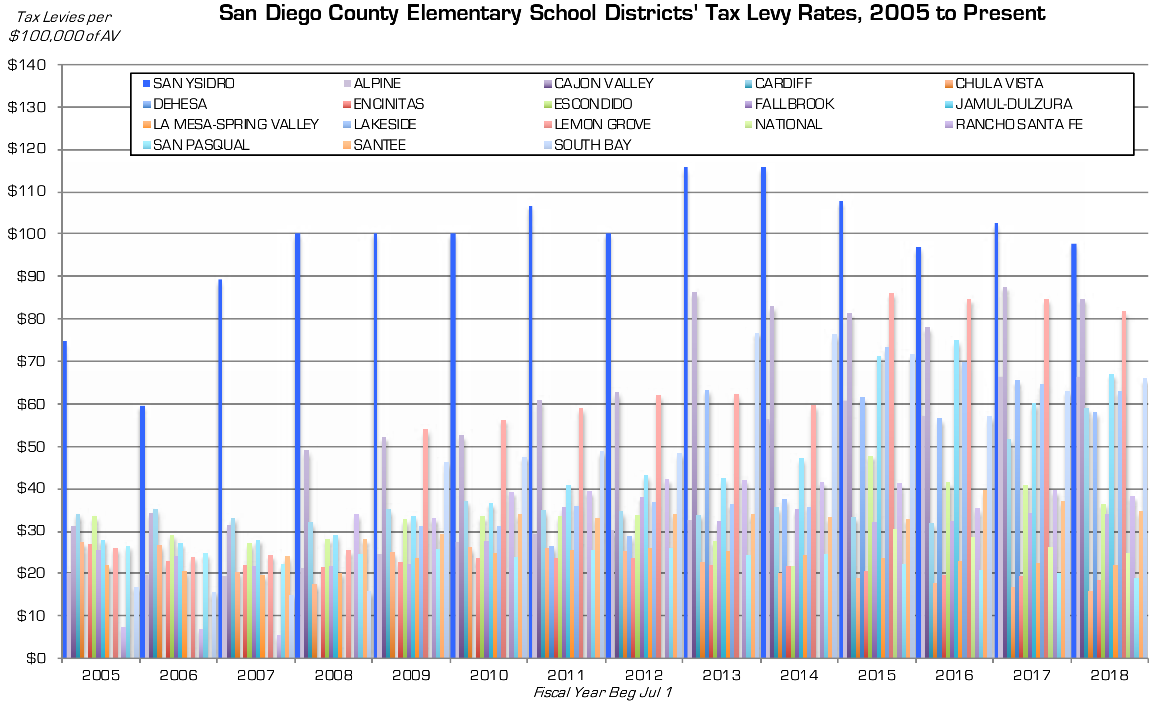



In addition, the district has issued only 57% of the bonds authorized by Proposition C, as shown in the chart below.



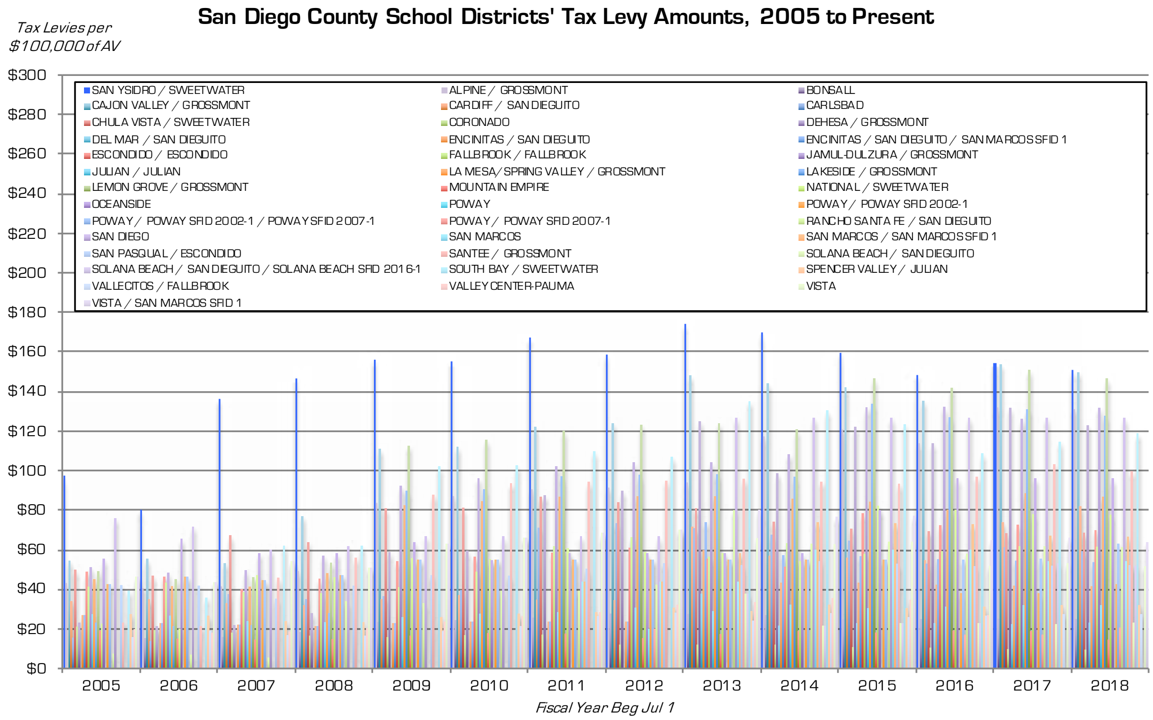

Authorization and Issuances from *Official Statements*. Values rounded.

At the same time, as shown in the chart below, the district has required bond taxes that are the highest of all elementary school districts in the county.




Data from San Diego County Auditor and Controller's Department (www.sandiegocounty.gov/content/sdc/auditor/taxratebook.html). In Feb 2013, San Diego County Board of Supervisors created a unified district within the boundaries of Bonsall Union School District, thus is shown in unified school chart. Affiliated (feeder) districts and SFIDs derived from *California State Board of Equalization Districts with TRAs and Maps for the 2018/19 Board Roll of State-Assessed Properties for San Diego County.*

In addition, when combined with bond taxes for the Sweetwater Union High School District, which encompasses the San Ysidro Elementary School District's boundaries and provides secondary education to its students, bond tax rates for San Ysidro taxpayers have been the highest of all school districts in San Diego County since 2005, as shown in the following chart.




Data from San Diego County Auditor and Controller's Department (www.sandiegocounty.gov/content/sdc/auditor/taxratebook.html). In Feb 2013, San Diego County Board of Supervisors created a unified district within the boundaries of Bonsall Union School District. Affiliated (feeder) districts and SFIDs derived from *California State Board of Equalization Districts with TRAs and Maps for the 2018/19 Board Roll of State-Assessed Properties for San Diego County.*

In addition to relatively high general obligation bond taxes, almost 40% of properties in the district are subject to taxes from CFDs. The lowest special tax rate for any of these properties in the district is more than $600 annually, as shown in the table below. Some owners of multifamily properties are paying hundreds of thousands of dollars in CFD taxes annually.

## *Community Facilities Districts*

Parcels in District 7,351

| | Total Parcels | Taxable Parcels | Maximum Tax | Minimum Tax |
|---|---|---|---|---|
| CFD #1 | 578 | 499 | $ 1,235.02 | $ 707.06 |
| CFD #2 | 928 | 877 | $ 1,057.90 | $ 971.64 |
| CFD #3 | 1,726 | 1,488 | $ 217,385.78 | $ 637.34 |
| | 3,232 | 2,864 | | |
| | | | | |
| % of District Parcels in CFD #1 | 7.9% | 6.8% | | |
| % of District Parcels in CFD #2 | 12.6% | 11.9% | | |
| % of District Parcels in CFD #3 | 23.5% | 20.2% | | |
| | 44.0% | 39.0% | | |

Projected tax and redevelopment revenue from CFD No. 1, 2, and 3's *Annual Special Tax Report*, dated June 30, 2018, produced by Key Analytics.

In 1997 the district expected to issue all of the $250 million in general obligation bonds from Proposition C by 2023-24, as evidenced by the district's Tax Rate Statement from the sample ballot in 1997.

**TAX RATE STATEMENT**
**(Section 9401 of the Elections Code)**

An election will be held in the San Ysidro School District (the "District") on March 4, 1997, to authorize the sale of up to $250,000,000 in general obligation bonds of the District to finance the acquisition and improvement of real property for school purposes. If such bonds are authorized and sold, the principal thereof and interest thereon will be payable from the proceeds of tax levies made upon the taxable property in the District. The following information is provided in compliance with Sections 9400-9404 of the Elections Code of the State of California.

1. The best estimate of the tax which would be required to be levied to fund this bond issue during the first fiscal year after the sale of the first series of bonds (fiscal year 1997-1998), based on estimated assessed valuations available at the time of filing of this statement, is .10 cents per $100 ($100 per $100,000) of assessed valuation.

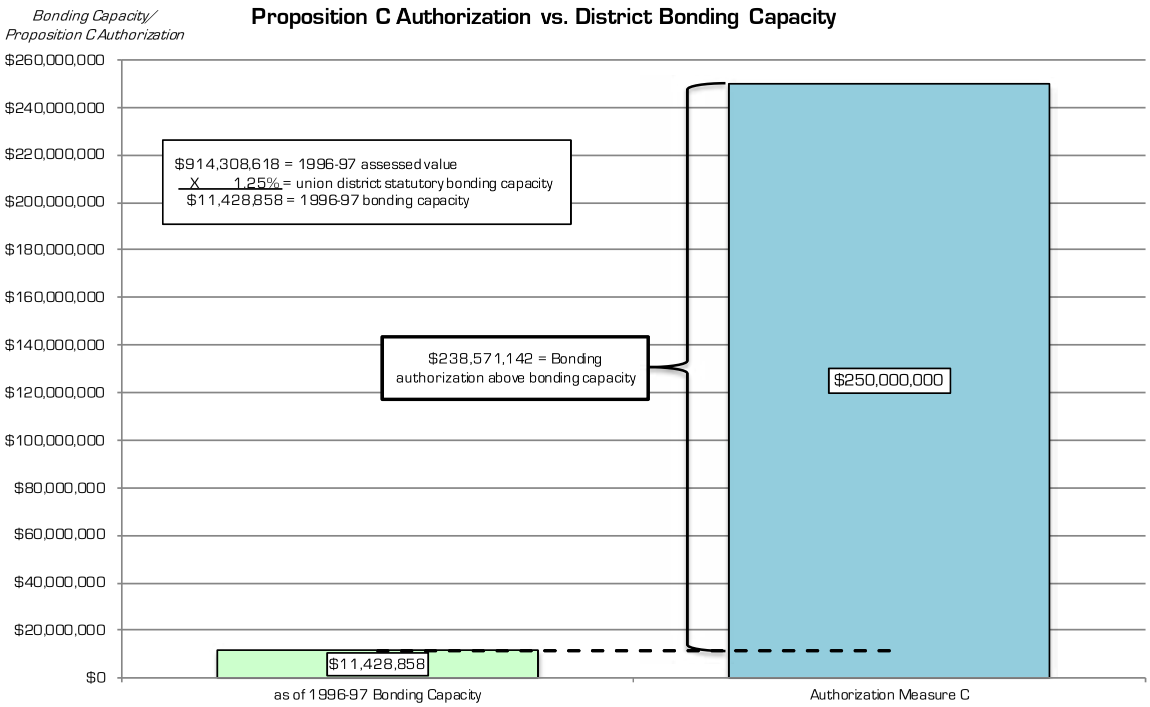
2. The best estimate of the tax rate which would be required to be levied to fund this bond issue during the first fiscal year after the sale of the last series of bonds (expected to be fiscal year 2023-2024), based on estimated assessed valuations available at the time of filing of this statement, is .10 cents per $100 ($100 per $100, 000) of assessed valuation.

3. The best estimate of the highest tax rate which would be required to be levied to fund this bond issue, based on estimated assessed valuations available at the time of filing of this statement, is .10 cents per $100 ($100 per $100,000) of assessed valuation.

Attention of all voters is directed to the fact that the foregoing information is based upon projections and estimates only, which are not binding upon the District. **The District will not be permitted to sell bonds unless, based upon the value of taxable property in the District at the time of issuance of such bonds, the highest projected tax rate required to repay all outstanding bonds authorized by this measure during the entire repayment period of such bonds will not exceed $0.10 per $100 of assessed valuation.** Actual future assessed valuation will depend upon the amount and value of taxable property within the District as determined in the assessment and the equalization process. **In the event that aggregate assessed valuation of taxable property in the District declines during the repayment period of any bonds, the actual tax rate could exceed $0.10 per $100 of assessed valuation.**

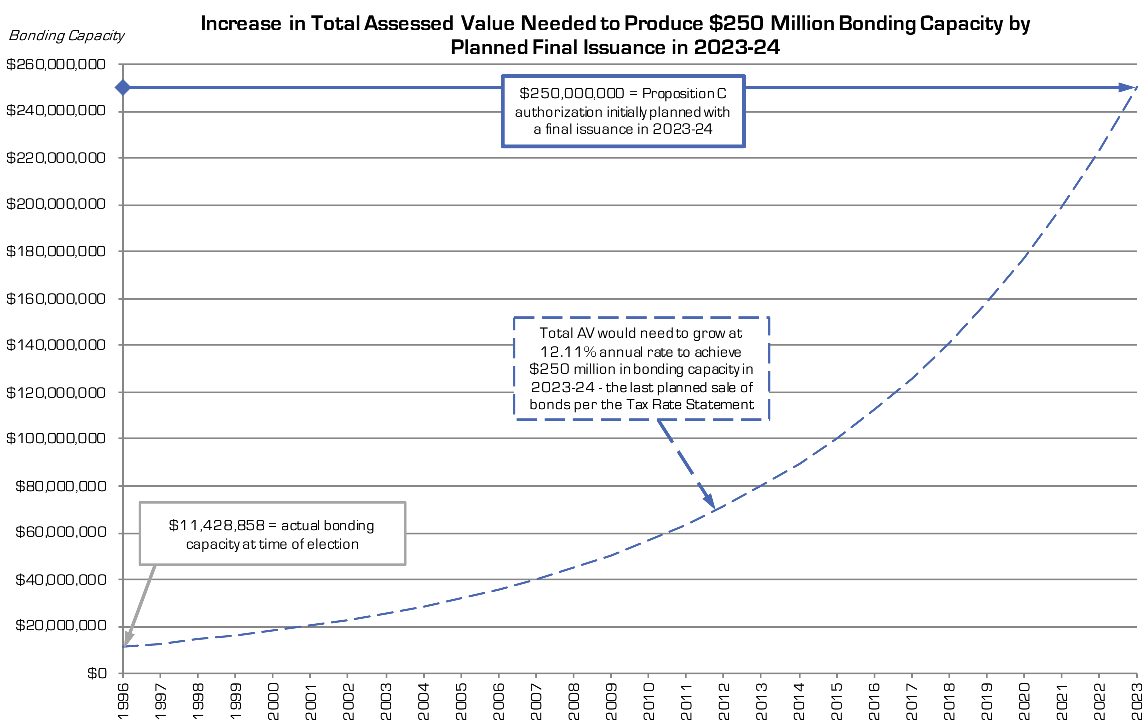
The actual tax rates and the years in which they will apply may vary from those presently estimated, due to variations from these estimates in the timing of bond sales, the amount of bonds sold at any given sale, market interest rates at the time of each bond sale, and actual assessed valuations over the term of repayment of the bonds. The actual dates of sale of said bonds and the amount sold at any given time will be governed by the limitation described in the preceding paragraph, as well as by the needs of the District and other factors.

The Proposition C bond authorization greatly exceeded the district's bonding capacity when it was approved by voters. Education Code 15268 states that a nonunified school district may not have outstanding bonds in excess of 1.25% of assessed taxable property value.



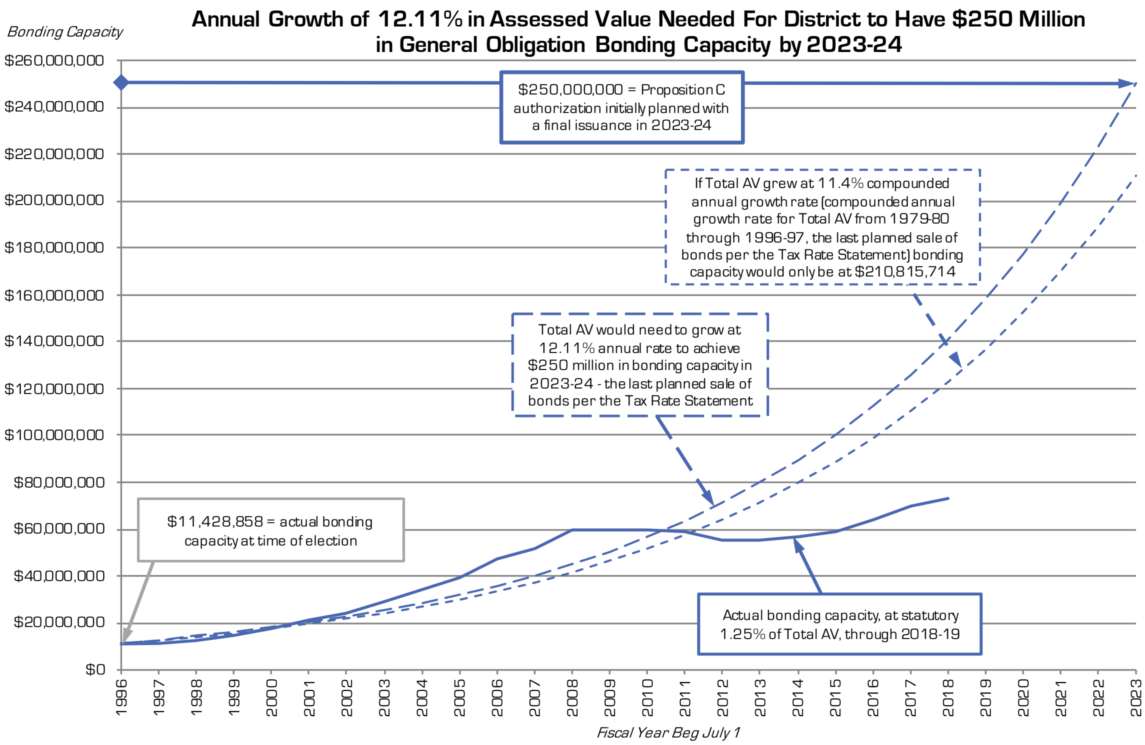

Bonding capacity is as of 1996-97, based on the most recently available AV at the time of the election. Statutory bonding capacity for a union district is 1.25% of total assessed value. Outstanding bonds from *Official Statements*.

The bonding capacity limit is tested when bonds are sold. The chart below shows that for the district to have expected $250 million in bonding capacity by fiscal year 2023-24, it would have had to assume an annual growth rate of 12.11%.



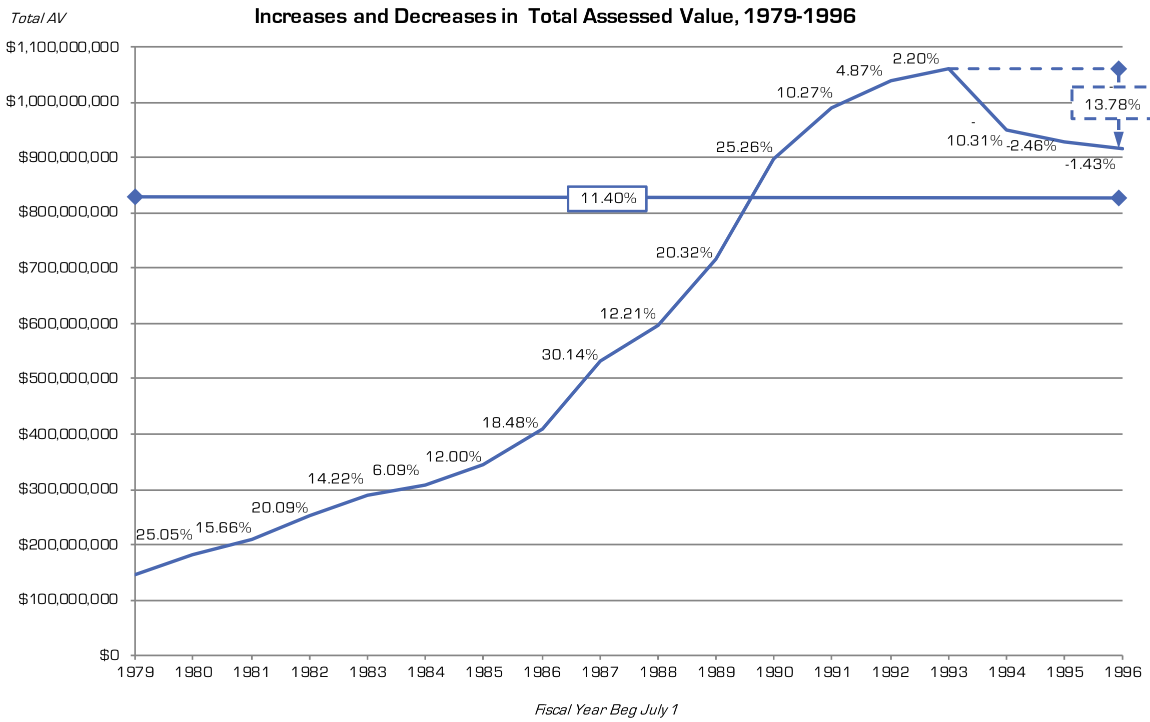

Bonding capacity is as of 1996-97, based on the most recently available AV at the time of the election. Statutory bonding capacity for a union district is 1.25% of total assessed value. Outstanding bonds from *Official Statements*. Analysis does not take into consideration repayment of existing bonds prior to 2023-24 which would reduce needed bonding capacity. AV provided by San Diego County Auditor-Controller's Department.

From fiscal year 1979-80 (when Proposition 13 was implemented) to fiscal year 1996-97, the district's tax base grew at a rate of 11.4%. Had the district had this same compound annual growth rate following the passage of Proposition C, the district's bonding capacity would have reached almost $211 million by fiscal year 2023-24, which was identified in the Tax Rate Statement as the fiscal year following the last sale of bonds. The chart below shows this data.



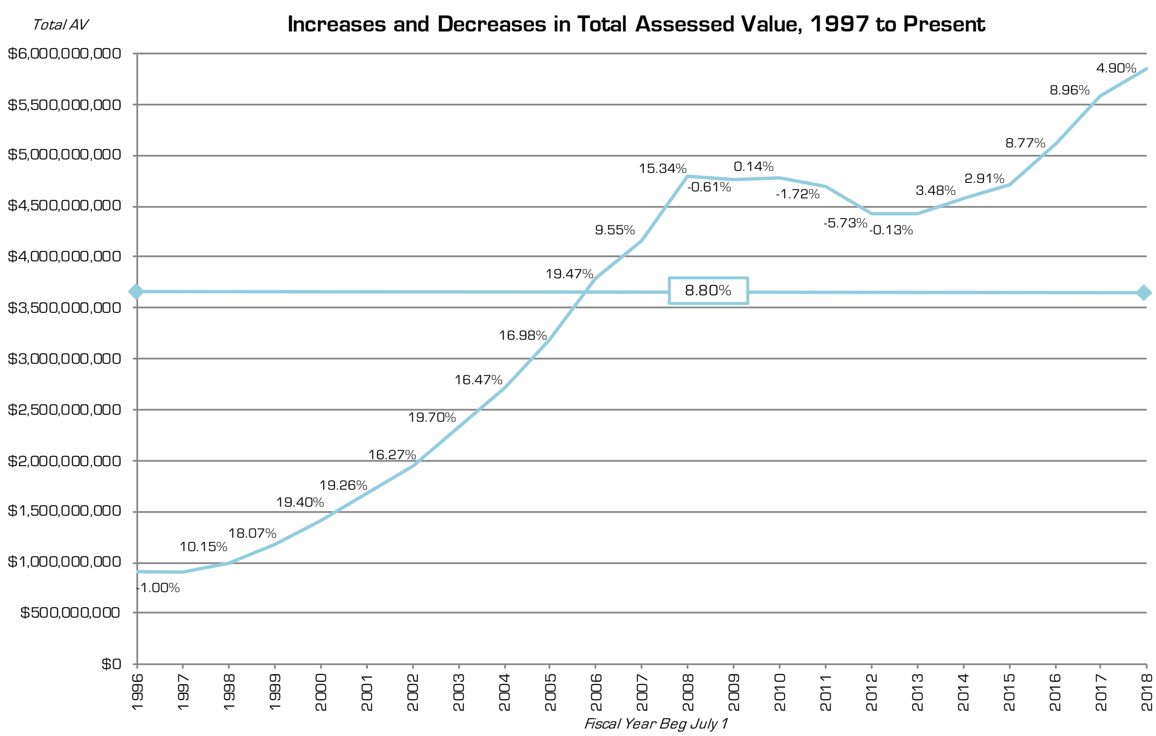

Bonding capacity is as of 1996-97, based on the most recently available AV at the time of the election. Statutory bonding capacity for a union district is 1.25% of total assessed value. Outstanding bonds from *Official Statements*. Analysis does not take into consideration repayment of existing bonds prior to 2023-24 which would reduce needed bonding capacity.

It is reasonable to think that there would have been some planned amortization of the principal, so it is conceivable that there was a plan that justified the issuance of $250 million in bonds by fiscal year 2023-24. However, such a plan would have had to ignore the most recent trends in the tax base, which included a decline in the tax base in each of the three years immediately preceding the election, as shown in the chart below.



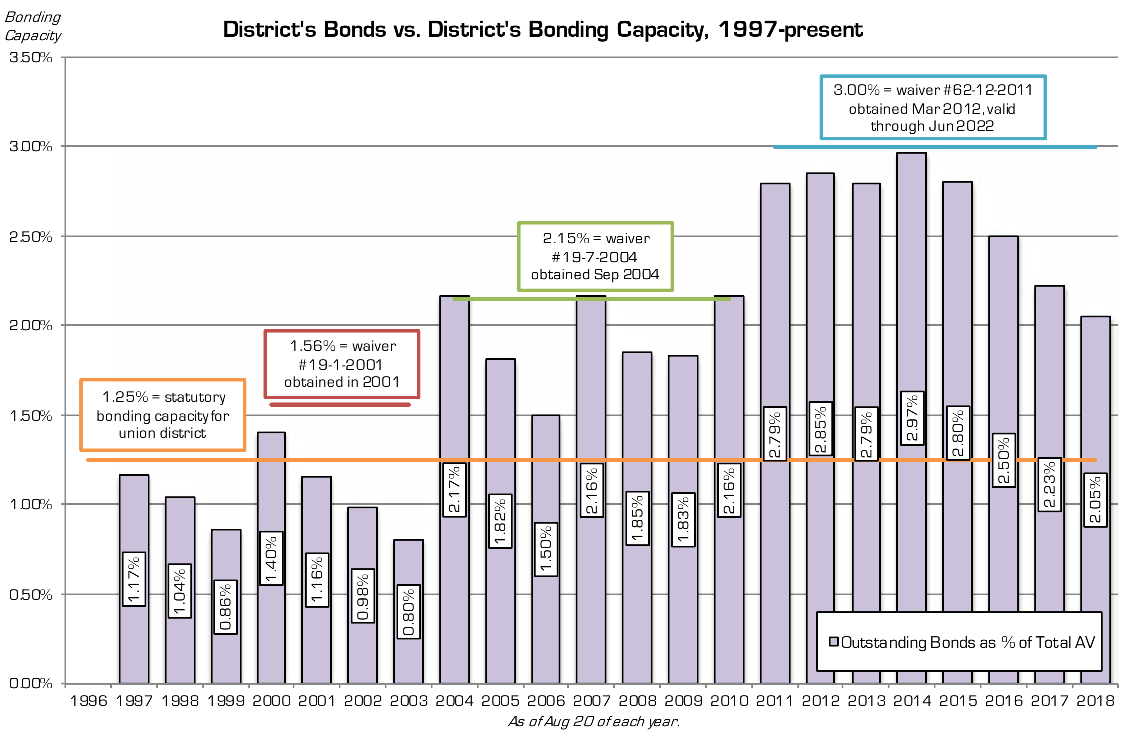

Assessed value provided by San Diego County Auditor-Controller's Department.

The tax base decline abated in the year after the election and continued to do so until fiscal year 2009-10, when it began a decline so severe that it did not rise above the fiscal year 2008-09 level until fiscal year 2016-17, as shown in the chart below.




Assessed value provided by San Diego County Auditor-Controller's Department.

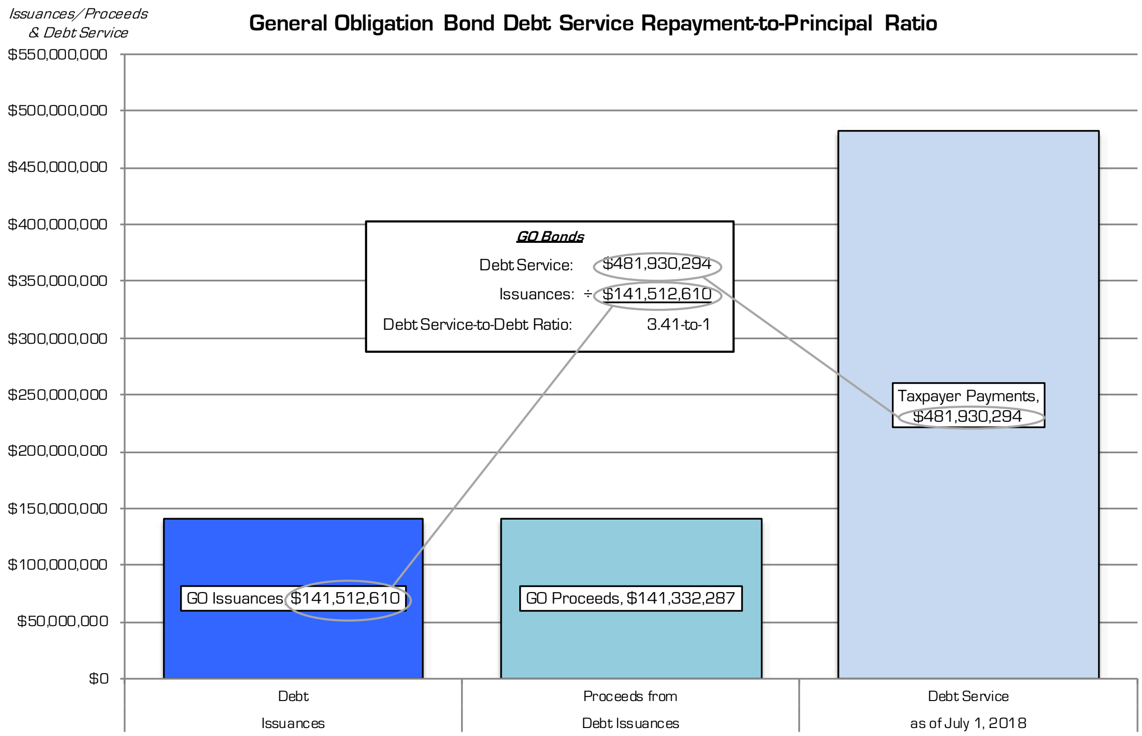
The planning for Proposition C appears to have been flawed from the beginning, because the district required bonding capacity waivers from the State Board of Education in 2001, 2004 and 2012, each of which allowed the district successively greater bonding capacity, as shown in the chart below.



Bonding capacity is as of August 20 when assessed value becomes "equalized." Statutory bonding capacity for a unified district is 1.25% of total assessed value.
Outstanding bonds from *Official Statements*.

The district's high use of bonding capacity means that it would likely be able to apply and qualify for financial hardship status from the Office of Public School Construction to generate additional state facilities grants. However, FCMAT found no evidence that the district had submitted such an application.

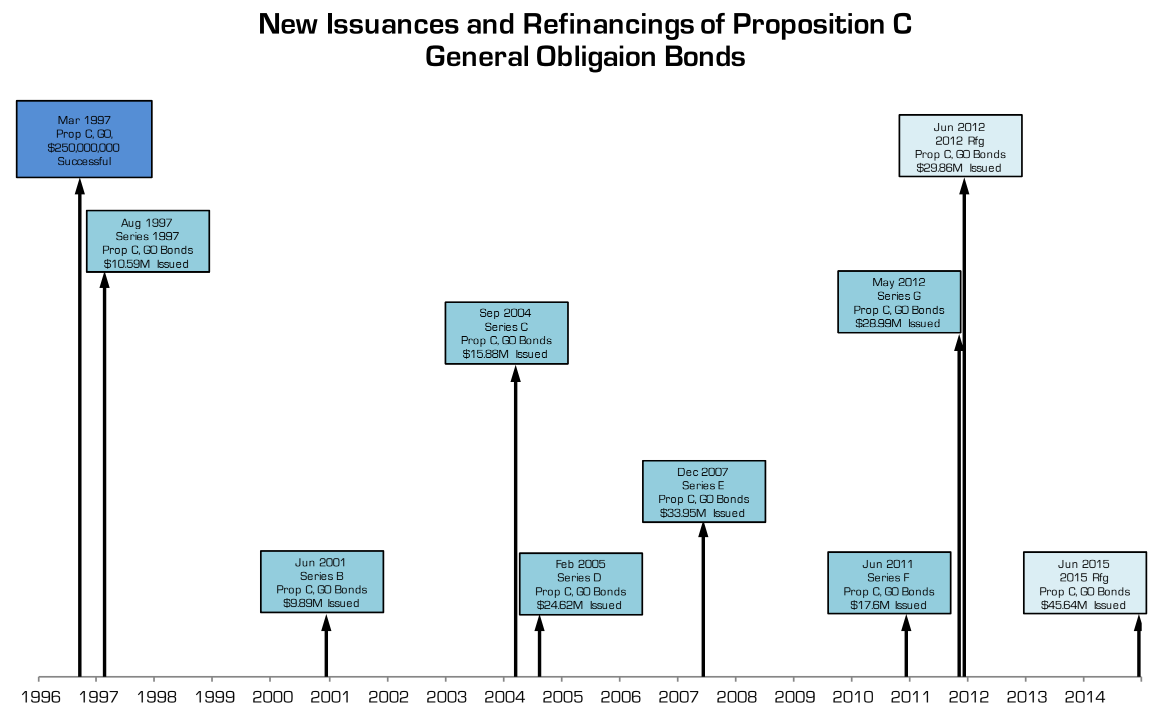
In addition to having overly optimistic estimates of tax base growth, the district issued its general obligation bonds at a high cost. As the chart below shows, the district's general obligation repayment ratio (that is, the ratio of total debt service to principal) exceeds 3.4-to-1.



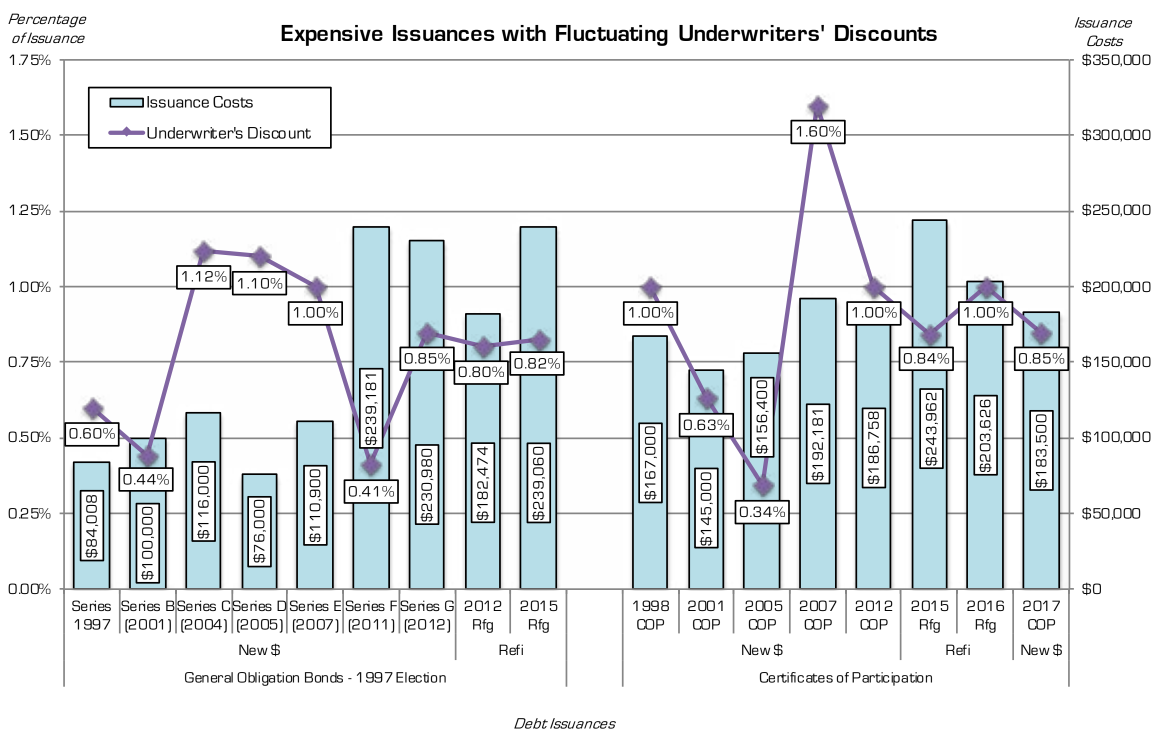

Issuances, proceeds, & debt Service from *Official Statements*. Debt service after new money sales (without refinancings) was $545,625,974, for Proposition C GO Bonds.

As mentioned previously, for a fully amortized 30-year mortgage with monthly payments to have a repayment ratio of 3-to-1, the annual interest rate would have to be 9.4%. Since March 4, 1997, when the district's Proposition C general obligation measure passed, 30-year mortgage rates have had a high of 8.64% and a low of 3.31% (per the St. Louis Federal Reserve's published "30-Year Fixed Rate Mortgage Average in the United States"). During the same time period, the Bond Buyer's 20-Bond Index (a standard municipal bond benchmark) had a high of 6.11% and a low of 2.80%.

The district has issued Proposition C general obligation bonds nine times in 21 years, as shown in the chart below. This frequency is high given that the Internal Revenue Code provides for tax-exempt bonds to be issued to address three years of intended expenditures. The missed opportunities for economies of scale are even greater from September 2004 through December 2007, during which time the district issued general obligation bonds three times, and from June 2011 through June 2015, when the district issued bonds four times, including two issuances within 30 days (May 31, 2012 and June 27, 2012).

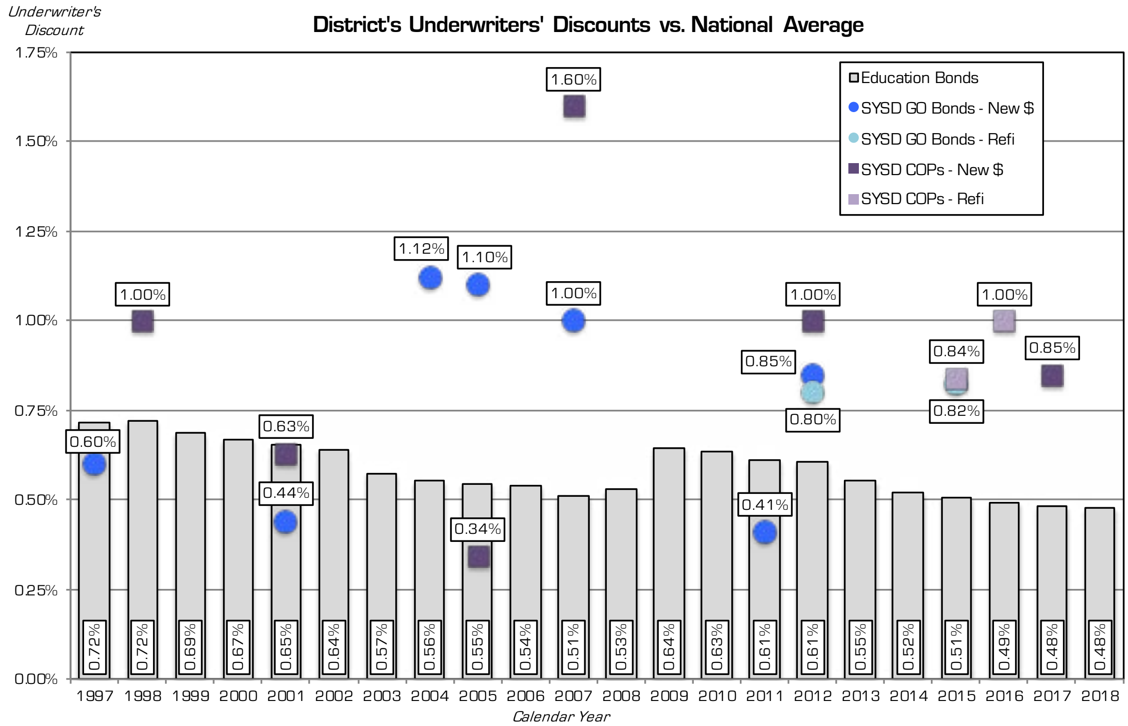



With such frequent issuances, the district had the opportunity to compare costs and perhaps reduce them. Instead, as shown in the chart below, its costs of issuance fluctuated widely and increased overall beginning in 2007, and more so by 2012.




Cost breakouts from *Official Statements* and California Treasurer's website (www.debtwatch.treasurer.ca.gov/government/cda-all-data/yng6-vaxy/data).

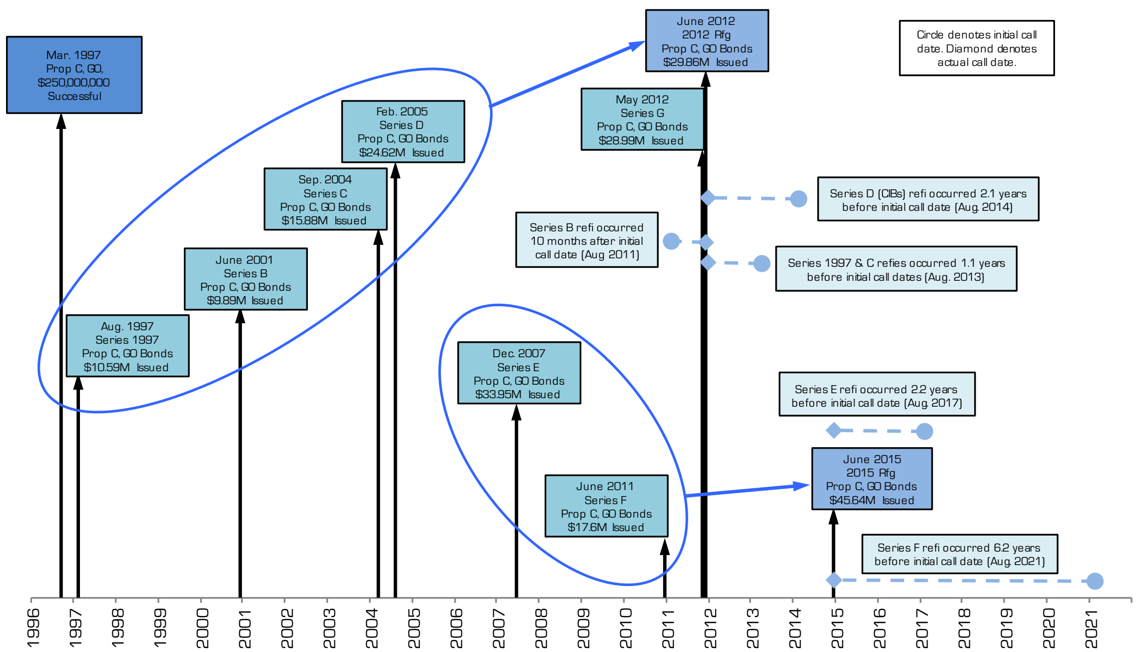
In addition, over the past 21 years, underwriting discounts dropped from an average of 0.72% to an average of 0.48% nationwide, yet the district was paying up to three times the national average, as shown in the chart below.




Underwriter's discounts for San Ysidro SD from *Official Statements* and California Treasurer's website (www.debtwatch.treasurer.ca.gov/government/cda-all-data/yng6-vaxy/data). Underwriter's spreads for Education bonds from *2016 in Statistics* & *2018 in Statistics* (Midyear Review) from The Bond Buyer.

In 2012 and 2015, the district refinanced outstanding general obligation bonds well ahead of the initial call dates, incurring significant negative arbitrage. The refinancing of the Series F bonds occurred more than six years ahead of the call date, as shown in the chart below.

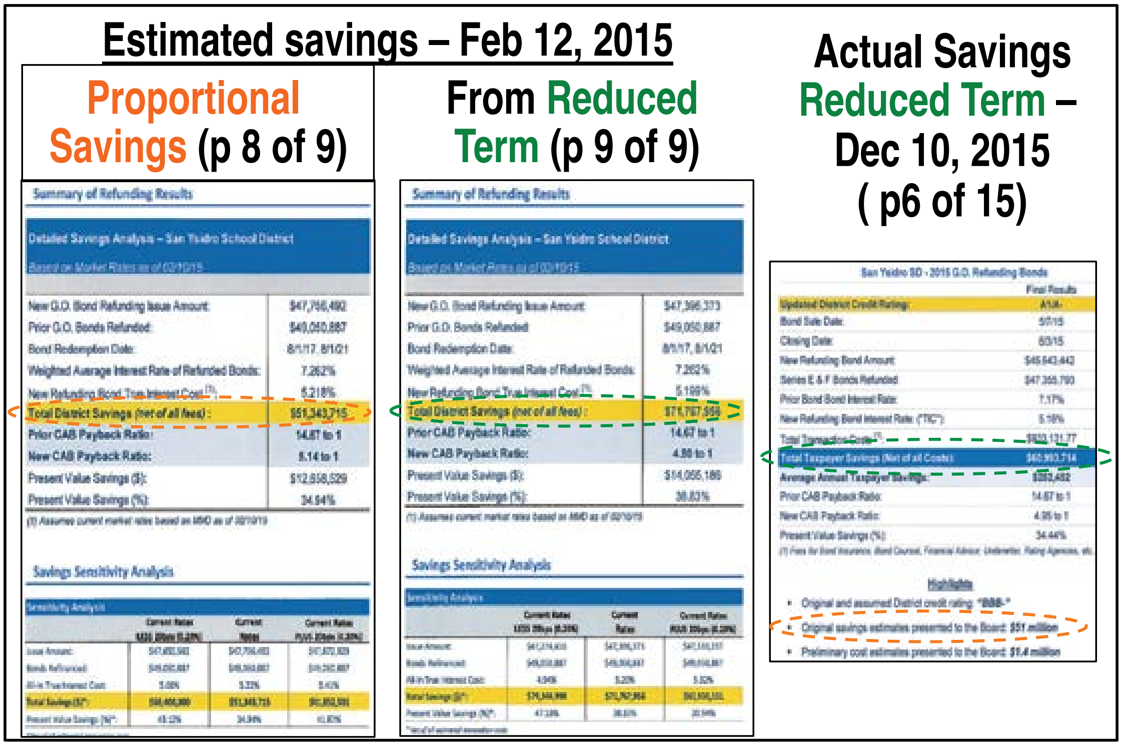
**Disrict's Refinancing of General Obligation Bonds Long Before Initial Call Date Led to Inefficiencies**




Data from *Official Statements.*

FCMAT reviewed various presentations from public finance professionals to the district's governing board and found no evidence that the presentations included the cost of negative arbitrage or the value of waiting to refinance until closer to the call date. The Government Finance Officers Association's recommended best practice for refunding municipal bonds includes specific recommendations regarding negative arbitrage efficiency, rate efficiency/sensitivity analysis, and refinancing analysis. At the time of the 2015 refinancing, the county superintendent of schools had a fiscal advisor in place at the district and provided the district with a written analysis more than two months prior to the refinancing. That analysis pointed out several questions that should be addressed and best practices to be considered. FCMAT found no evidence of any changes in the district's practices as a result of the county superintendent of schools' advice.

For the general obligation bond refinancing in 2015, the public finance professionals offered the district two alternatives: one maintained the original term with proportional savings and had a projected savings of $51.3 million; the other shortened the term and had a projected savings of $71.8 million. The district chose the latter, and the bonds were refinanced for a shorter term, with a net savings of $61 million. When the results were presented to the board, the actual result of $61 million in savings was compared with the $51 million estimate; however, the appropriate comparison would have been to the $71.8 million projected savings. FCMAT noted other discrepancies, but this appeared most significant because of the misrepresentation. The graphic below shows the tables from that presentation.




When interviewed for this report, the district's former assistant superintendent of business services stated that material from public finance professionals was routinely presented to the board without having been reviewed by staff and that she did not participate in the district's issuance of securities. However, she made extensive comments about the matter to the press at the time of this particular financing (https://www.kpbs.org/news/2015/feb/25/school-bonds-debt-burden-san-diego-county/).

Although he was at the district for less than two months, the district's interim superintendent at the time brought in a new set of public finance professionals and expressed satisfaction with this particular financing because it reduced the use of capital appreciation bonds. **

FCMAT's interviews with the former interim superintendent and former assistant superintendent of business services revealed that neither executive understood the options available to the district and neither properly scrutinized the information received from public finance professionals regarding bond structure, timing, costs, and alternatives.

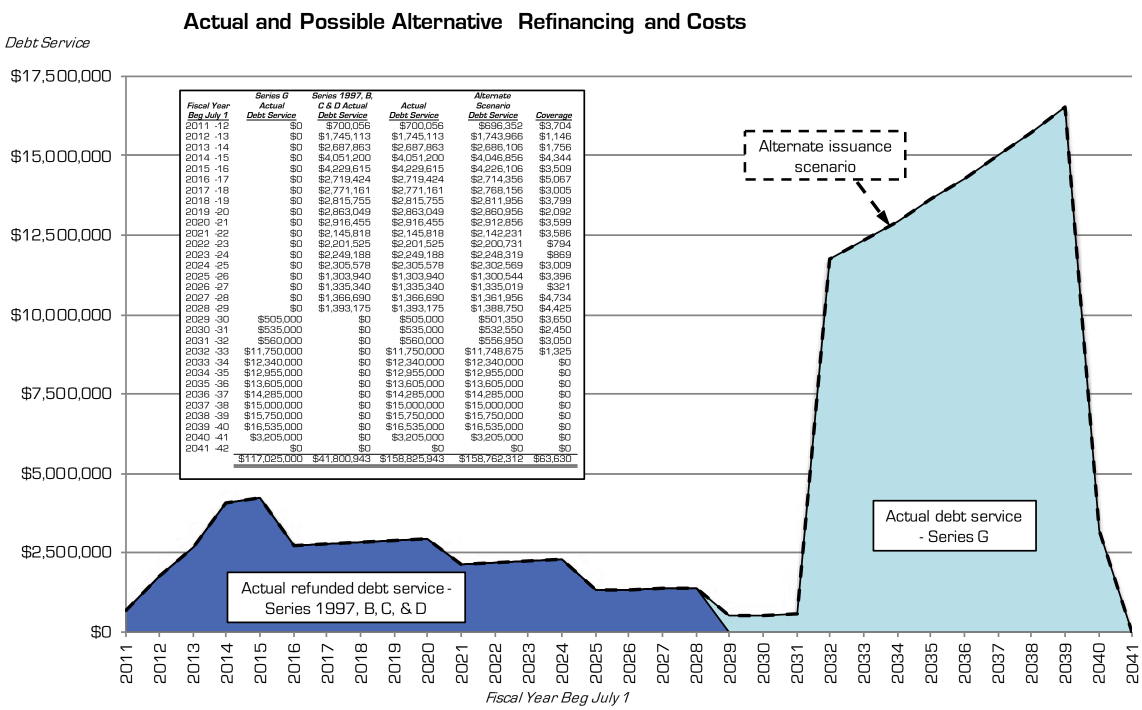
From 2015 through 2017, the district used RBC Capital Markets as its underwriter, Isom Advisors and then California Financial Services as its financial advisor, and Dannis Woliver Kelley as bond and disclosure counsel, for four securities offerings in 14 months.

The previously mentioned written advice that the district's interim superintendent received from the county office of education in March 2015 also described concerns with the district's method of contracting, specific objectionable provisions of the contracts, the financial advice being provided, and the lack of accurate and detailed information being provided to the district's governing board.

** Appendix A contains a list of district superintendents' and board members' dates of service.

However, the district's poor management of public finance professionals was not new. In 2011 and 2012, the district used De La Rosa as underwriter, Dolinka Group as financial advisor, and in most cases used Best, Best & Krieger as bond counsel, disclosure counsel and district counsel. With this team, the district issued securities four separate times in less than one year; two of these four were general obligation bond issues sold less than one month apart. Specifically, on May 31, 2012, the district sold Series G bonds under Proposition C, and on June 27, 2012 it sold bonds to refinance the first through fourth series of Proposition C bonds (these were called Series 1997, and Series B, C, and D).

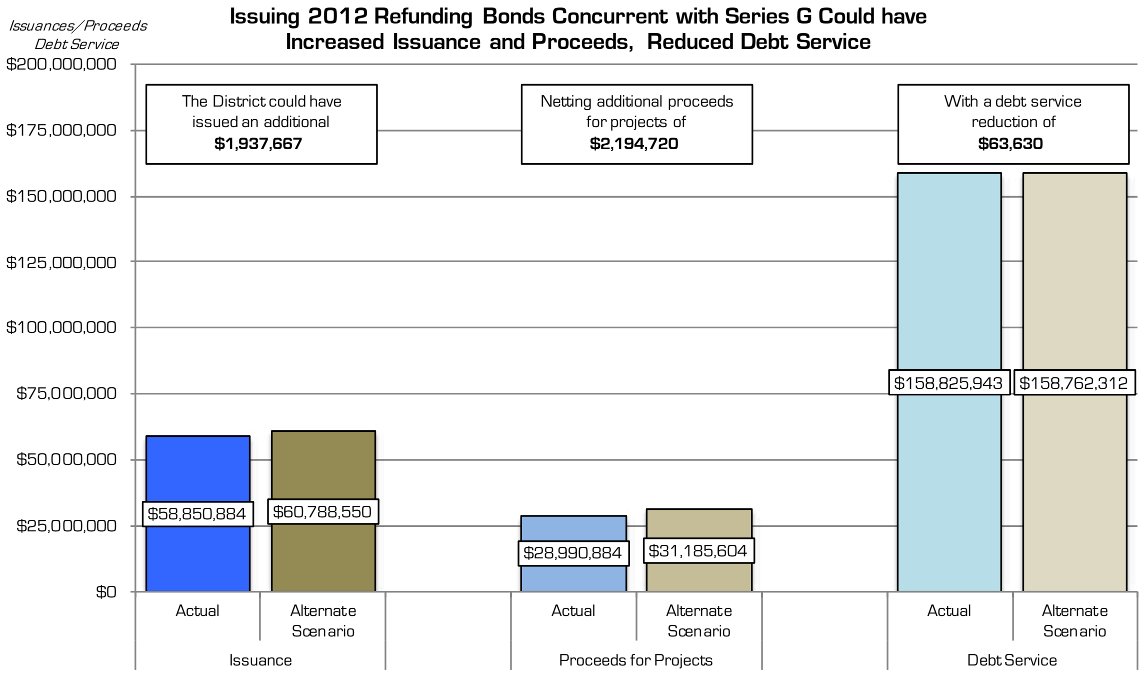
To demonstrate the value of consolidation, FCMAT analyzed what the result would have been if these two general obligation bond sales had been combined. FCMAT's model includes both the new money borrowing and refinancing in one bond issue. The chart below shows the results of this analysis.




| Fiscal Year Beg July 1 | Series G Actual Debt Service | Series 1997, B, C & D Actual Debt Service | Actual Debt Service | Alternate Scenario Debt Service | Coverage |
|---|---|---|---|---|---|
| 2011 -12 | $0 | $700,056 | $700,056 | $696,352 | $3,704 |
| 2012 -13 | $0 | $1,745,113 | $1,745,113 | $1,743,966 | $1,146 |
| 2013 -14 | $0 | $2,687,863 | $2,687,863 | $2,686,106 | $1,756 |
| 2014 -15 | $0 | $4,051,200 | $4,051,200 | $4,046,856 | $4,344 |
| 2015 -16 | $0 | $4,229,615 | $4,229,615 | $4,226,106 | $3,509 |
| 2016 -17 | $0 | $2,719,424 | $2,719,424 | $2,714,356 | $5,067 |
| 2017 -18 | $0 | $2,771,161 | $2,771,161 | $2,768,156 | $3,005 |
| 2018 -19 | $0 | $2,815,755 | $2,815,755 | $2,811,956 | $3,799 |
| 2019 -20 | $0 | $2,863,049 | $2,863,049 | $2,860,956 | $2,092 |
| 2020 -21 | $0 | $2,916,455 | $2,916,455 | $2,912,856 | $3,599 |
| 2021 -22 | $0 | $2,145,818 | $2,145,818 | $2,142,231 | $3,586 |
| 2022 -23 | $0 | $2,201,525 | $2,201,525 | $2,200,731 | $794 |
| 2023 -24 | $0 | $2,249,188 | $2,249,188 | $2,248,319 | $869 |
| 2024 -25 | $0 | $2,305,578 | $2,305,578 | $2,302,569 | $3,009 |
| 2025 -26 | $0 | $1,303,940 | $1,303,940 | $1,300,544 | $3,396 |
| 2026 -27 | $0 | $1,335,340 | $1,335,340 | $1,335,019 | $321 |
| 2027 -28 | $0 | $1,366,690 | $1,366,690 | $1,361,956 | $4,734 |
| 2028 -29 | $0 | $1,393,175 | $1,393,175 | $1,388,750 | $4,425 |
| 2029 -30 | $505,000 | $0 | $505,000 | $501,350 | $3,650 |
| 2030 -31 | $535,000 | $0 | $535,000 | $532,550 | $2,450 |
| 2031 -32 | $560,000 | $0 | $560,000 | $556,950 | $3,050 |
| 2032 -33 | $11,750,000 | $0 | $11,750,000 | $11,748,675 | $1,325 |
| 2033 -34 | $12,340,000 | $0 | $12,340,000 | $12,340,000 | $0 |
| 2034 -35 | $12,955,000 | $0 | $12,955,000 | $12,955,000 | $0 |
| 2035 -36 | $13,605,000 | $0 | $13,605,000 | $13,605,000 | $0 |
| 2036 -37 | $14,285,000 | $0 | $14,285,000 | $14,285,000 | $0 |
| 2037 -38 | $15,000,000 | $0 | $15,000,000 | $15,000,000 | $0 |
| 2038 -39 | $15,750,000 | $0 | $15,750,000 | $15,750,000 | $0 |
| 2039 -40 | $16,535,000 | $0 | $16,535,000 | $16,535,000 | $0 |
| 2040 -41 | $3,205,000 | $0 | $3,205,000 | $3,205,000 | $0 |
| 2041 -42 | $0 | $0 | $0 | $0 | $0 |
| | $117,025,000 | $41,800,943 | $158,825,943 | $158,762,312 | $63,630 |

Actual Series 1997, B, C, & D debt service from *Official Statements*. Projected debt service for "Alternate Scenario" based on MMD "AAA" interest rates as of May 15, 2012 (sale of Series G); CABs use same spreads as Series G, CIBs use same spread as 2012 Refunding, though 2012 Refunding had final maturity of 2029 and "Alternate" CIBs extend longer, thus maturities beyond 2029 use same spread as 2029.

The consolidated approach in FCMAT's model shows that the district could have received an additional $2.2 million in new money proceeds with lower debt service. The chart below compares the district's actual bond issuances and refinancing to FCMAT's combined issuance model.




Actual Series G and 2012 Refunding Bonds' sources and uses from *Official Statements*, with cost breakouts from California Treasurer's website (www.debtwatch.treasurer.ca.gov/government/cda-all-data/yng6-vaxy/data). Projected issuances for "Alternate Scenario" based on MMD "AAA" interest rates as of May 15, 2012 (sale of Series G); CABs use same spreads as Series G, CIBs use same spread as 2012 Refunding, though 2012 Refunding had final maturity of 2029 and "Alternate" CIBs extend longer, thus maturities beyond 2029 use same spread as 2029. Sources and uses for "Alternate Scenario" assumes same costs of issuance for Series G, and 2012 Refunding, less $20,000 for bond counsel and less $14,000 for rating fee. Underwriter's discount and bond insurance use the same percentage as the actual Series G and 2012 Refunding: underwriter's discount is 0.85% of issuance amount for Series G and 0.82% for 2012 Refunding, while bond insurance is 0.38% of gross debt service for Series G and 0.32% for 2012 Refunding.

More details are shown in the table below.

| | Actual Sources and Issuance for Series G & 2012 Refunding | | | Alternate Scenario for Series G & 2012 Refunding | | | | |
|---|---|---|---|---|---|---|---|---|
| | Series G | 2012 Refunding | Actual Combined | Series G | 2012 Rfg | Alternate Combined | Change | |
| **Sources** | | | | | | | | |
| Principal | $ 28,990,883.60 | $ 29,860,000.00 | $ 58,850,883.60 | $ 31,183,550.20 | $ 29,605,000.00 | $ 60,788,550.20 | $ 1,937,666.60 | = Additional principal issued |
| Premium | $ 925,828.10 | $ 1,867,465.70 | $ 2,793,293.80 | $ 956,680.20 | $ 2,063,783.30 | $ 3,020,463.50 | $ 227,169.70 | = Additional premium received |
| Total Sources | $ 29,916,711.70 | $ 31,727,465.70 | $ 61,644,177.40 | $ 32,140,230.40 | $ 31,668,783.30 | $ 63,809,013.70 | $ 2,164,836.30 | |
| **Uses** | | | | | | | | |
| Funds for Projects | $ 28,990,883.60 | | $ 28,990,883.60 | $ 31,185,603.54 | | $ 31,185,603.54 | $ 2,194,719.94 | = Additional funds for projects |
| Escrow Deposit | | $ 30,880,396.90 | $ 30,880,396.90 | | $ 30,857,690.42 | $ 30,857,690.42 | ($ 22,706.48) | = Reduced escrow deposit required |
| Debt Service Fund | | $ 299,639.46 | $ 299,639.46 | | $ 300,776.41 | $ 300,776.41 | $ 1,136.95 | = Additional funds for debt service |
| Costs of Issuance | $ 234,710.60 | $ 182,473.77 | $ 417,184.37 | $ 234,710.60 | $ 148,473.77 | $ 383,184.37 | ($ 34,000.00) | = Reduced costs of issuance |
| Underwriter's Discount | $ 246,422.50 | $ 238,880.00 | $ 485,302.50 | $ 265,060.18 | $ 236,840.00 | $ 501,900.18 | $ 16,597.68 | = Increased Underwriter's Discount due to increased issuance |
| Bond Insurance | $ 444,695.00 | $ 126,075.57 | $ 570,770.57 | $ 454,856.08 | $ 125,002.70 | $ 579,858.78 | $ 9,088.21 | = Increased Bond Insurance due to larger issuance |
| Total Uses | $ 29,916,711.70 | $ 31,727,465.70 | $ 61,644,177.40 | $ 32,140,230.40 | $ 31,668,783.30 | $ 63,809,013.70 | $ 2,164,836.30 | |

Actual Series G and 2012 Refunding Bonds' sources and uses from *Official Statements,* with cost breakouts from California Treasurer's website (www.debtwatch.treasurer.ca.gov/government/cda-all-data/yng6-vaxy/data). Projected sources and uses for "Alternate Scenario" assumes same costs of issuance for Series G, and 2012 Refunding, less $20,000 for bond counsel and less $14,000 for rating fee. Underwriter's discount and bond insurance use the same percentage as the actual Series G and 2012 Refunding: underwriter's discount is 0.85% of issuance amount for Series G and 0.82% for 2012 Refunding, while bond insurance is 0.38% of gross debt service for Series G and 0.32% for 2012 Refunding.

In 2017, the district took on additional liability by issuing COPs (questionably referred to as bridge financing) that its budget could not fully support at the time. Had the district optimized its Proposition C bond issuances, there may have been less motivation to take on as much additional debt.

This is an example of how efficiencies could be gained through better public finance practices. The scope of this study did not allow FCMAT to develop alternate scenarios for every financing; however, the frequency of issuances, high costs of issuances and high underwriting discounts indicate that the district could have done significantly better.

As the findings above show, the district's financings have been unnecessarily costly to taxpayers, and the district has taken on debt that poses a risk to its solvency, a step that seems unnecessary for a district with more than $100 million in authorized but unused bonding authority. At the same time, the district's taxpayers are burdened with the highest school bond taxes in the county, and almost 40% of its taxpayers also bear the burden of relatively high special taxes (Mello-Roos).

The poor financing practices have extended through multiple administrations and governing boards. The district's executive leaders have allowed inaccurate and misleading information to be presented to the governing board.

# Facilities Fund Expenditures

FCMAT reviewed the district's facilities program for fiscal year 2012-13 through May of fiscal year 2017-18, specifically whether all expenditures of facility funds were in compliance with authorized purposes. The review focused on authorization; FCMAT did not examine any promises that may have been made to voters in campaign materials, ballot arguments and related materials.

As previously noted, the district has outstanding bonds from Proposition C, a bond measure its voters approved by the required two-thirds majority on March 4, 1997, that authorized $250 million in bonds. In addition, the district has outstanding debt from four COPs financings, issued in 2012, 2015, 2016 and 2017. The Official Statement of the 2012 COPs identifies the repayment source as community facilities district (CFD) tax revenue. The Official Statement of the 2017 COPs identifies them as bridge funding. A presentation by California Financial Services dated July 7, 2017 lists the sources of funding to which the COPs are a bridge as follows:

1) State matching funds,
2) 2018 new GO bond measure, and
3) Remaining 1997 GO bond measure

To date, as shown on the Electronic Municipal Market Access (EMMA) website, none of these sources has been successful in repaying the financing, so the district continues to rely on CFD revenue, redevelopment revenue, and other district revenue as needed to cover the debt service payments.

The first chart in the Debt Issuance Practices section earlier in this report shows the timing of the district's general obligation (GO) bonds and COPs debt issuances during the period under review (2012 through 2018).

## General Obligation Bond Funds

Authorized expenditures of bond funds are governed by Article XIII A of the California Constitution and by the applicable bond ballot measure.

**California Constitution, Article XIII**

The California Constitution, Article XIII A, defines the allowable purposes for the expenditure of bond funds for a bond measure approved by two-thirds of voters. Section 1(b)(2) authorizes "the acquisition or improvement of real property."

Real property usually means land and buildings.

Unlike bond measures approved by 55% of voters, the authorized purposes for a measure approved by two-thirds of voters do not include the furnishing and equipping of school facilities. However, building fixtures and service systems are considered real property, and the 2016 edition of the *California School Accounting Manual* published by the California Department of Education defines these items based on the following criteria:

1. The item is attached permanently to the building.
2. The item functions as part of the building.
3. Removal of the item would result in appreciable damage to the building or would impair the designed use of the facility.

4. The item is generally accepted as real property (not personal property).
5. The item loses identity as a separate unit.

The *California School Accounting Manual* cites as examples of building fixtures bleachers installed in a gymnasium, built-in cabinetry, and walk-in freezers. Examples of service systems are air conditioning systems and intercommunication systems.

The *California Debt Issuance Primer* (California Debt and Investment Advisory Commission, 2006 Edition) includes the following commentary on real property:

> There is general agreement among practitioners and issuers that the limitation to "real property" means that vehicles, equipment, furnishings, supplies, and labor may not be financed with general obligation bonds. Generally, anything that is truly portable or can be removed from land or a building without causing damage to the land or building, may not be financed.

**Bond Ballot Measure**

Each bond ballot measure describes its authorized purposes. Proposition C asked voters to approve the following on March 4, 1997:

> Shall the San Ysidro School District incur bonded indebtedness for the purpose of acquiring and improving real property for authorized school purposes; provided, that at the time any series of bonds is issued the highest tax rate required to service that series and all outstanding bonds authorized by this measure shall not exceed $0.10 per $100 in assessed value, with the maximum principal amount of such bonds not to exceed $250,000,000?

## Development Impact Fees

Education Code Section 17620(a)(1) states that development impact fees are to be used for "construction or reconstruction of school facilities." Government Code Section 65995(g)(3) defines school facilities as "relating to a school district's ability to accommodate enrollment."

The following uses are specifically prohibited: regular maintenance and routine repair, asbestos inspection and removal, and deferred maintenance (Education Code section 17620). Deferred maintenance is defined as major repair or replacement of plumbing, heating, air conditioning, electrical, roofing and floors; painting; asbestos inspection and removal; lead inspection and removal; and any other items of maintenance (Education Code Section 17582).

## Funds from Certificates of Participation

Funds from COPs are to be spent "solely for capital outlay purposes, including the acquisition of real property for intended use as a schoolsite and the construction, reconstruction, and renovation of school facilities" (Education Code section 17456(c)(1)). In addition, Education Code Section 17457 states, "no proceeds obtained by the school district… shall be used for general operating purposes of the school district."

## Funds from Community Facilities Districts

The district has three CFDs with the following tax information for fiscal year 2017-18:

CFD #1: covers 578 parcels (499 taxable and 79 exempt) and levied $483,557 in taxes

CFD #2: covers 928 parcels (877 taxable and 51 exempt) and levied $875,171 in taxes

CFD #3: covers 1,726 parcels (1,488 taxable and 238 exempt) and levied $1,588,948 in taxes

Government Code Section 53313.5 states that funds from CFDs are to be spent for:

> the purchase, construction, expansion, improvement, or rehabilitation of any real or other tangible property with an estimated useful life of five years or longer or may finance planning and design work that is directly related to the purchase, construction, expansion, or rehabilitation of any real or tangible property. The facilities need not be physically located within the district.

In addition, resolutions associated with the formation of CFDs may further restrict the use of funds.

The district's CFDs were formed in 1992, 1998, and 1999, and the district was not able to locate any original resolutions. However, a July 12, 2018 presentation by the district's CFD consultant, California Financial Services, stated that the allowable facilities expenditures were those identified in statute, without any further limitation or modification. Although the district is authorized to issue CFD bonds to be repaid by the CFD taxes, it has not issued any such bonds to date; instead, it has relied on the CFD taxes to repay COPs.

# Substantive Testing

## Analysis of Expenditures

### Procedures

FCMAT analyzed expenditures from the district's facilities funds using the district's financial records exported and provided by the San Diego County Office of Education for the period of July 1, 2012 through May 21, 2018. The analysis included and used a review of the full detail general ledger database and the vendor payment history database.

The recording of expenditures, according to the *California School Accounting Manual*, includes two types of codes that provide insight into whether the expenditures relate to facilities or operations:

- Function Codes (the activity of the expenditure)
- Object Codes (the type of item purchased or service obtained)

The district accounts for facilities funds using the following fund designations:

- Fund 21 (Building Fund): GO bond funds
- Fund 25 (Capital Facilities Fund): development impact fees
- Fund 40 (Special Reserve Fund for Capital Outlay Projects): interest earnings were the only facilities funding source/revenue received during review
- Fund 49 (Capital Projects Fund for Blended Component Units): CFD and COP funds
- Fund 52 (Debt Service Fund for Blended Component Units): COP payments

In addition, Fund 01 (General Fund) may include facilities expenditures, so the expenditures classified as facilities from this fund were included in the review. Specifically, funds classified by object code as capital outlay (6000-6999) were reviewed in detail.

### Project Expenditures

FCMAT's review of documents and transactions indicates that expenditures for many of the following projects were likely not in compliance with bond requirements.

- Solar project by Manzana Energy (formerly known as EcoBusiness Alliance)
- Furniture purchases from:
    - Culver-Newlin
    - Crawford & Company
    - Nelson Adams
    - Virco
    - Magnum Drywall
    - Robinson Steel
- School funding program reconstruction services by California Financial Services
- Wire transfers

## Solar Project by Manzana Energy

The district and Manzana Energy entered into a solar power and services agreement dated October 8, 2008 and a first addendum dated April 9, 2015. The contract was set up as a power purchase agreement, under which the district would purchase the power produced by the solar system over 25 years, and Manzana Energy would own, operate and maintain the system during that time. At the end of 25 years, Manzana Energy could either remove the system from the district's property and retain ownership, or the district could purchase the system at fair market value.

Over the course of approximately three years following approval of the first addendum dated April 9, 2015, Manzana Energy received payments totaling $23,792,605 for an early termination fee, meaning that the district terminated the agreement before the end of the 25-year term and assumed the responsibility to own, operate and maintain the system.

Manzana Energy was contracted to receive $23,762,915 in accordance with the first addendum. However, the district's total actual payments were $23,792,605, or $29,690 more than the amount in the addendum. The actual payment amounts and dates were as follows:

| Date | Payment | Fund |
|---|---|---|
| 4/23/15 | $ 3,564,437 | 21 |
| 5/8/15 | $ 7,128,875 | 21 |
| 11/23/15 | $ 600,000 | 21 |
| 3/7/16 | $ 2,376,292 | 21 |
| 12/13/16 | $ 2,376,292 | 21 |
| 5/11/17 | $ 2,376,292 | 21 |
| 8/16/17 | $ 2,376,292 | 21 |
| 10/20/17 | $ 2,376,292 | 21 |
| 3/8/18 | $ 617,836 | 40 |
| Total | $ 23,792,605* | |

*Rounding used in calculations

Section 3.06 of the original agreement provides for removal of the systems at expiration of the agreement. Specifically, upon expiration or certain other terms of the agreement (such as early termination or contract default), the solar provider was to "remove all of its tangible property comprising the Systems from the Premises." Although the amended agreement made some changes to the term and termination provisions, it did not alter Section 3.06.

This raises the question of whether using GO bond funds to pay for such equipment was in compliance with the bond measure, which was "for the purpose of acquiring and improving real property," given how real property is defined by both the *California School Accounting Manual* and *California Debt Issuance Primer*.

The district rightly decided to request a legal opinion on whether GO bond funds could be used to pay for the solar project. It received a legal opinion from a law firm, dated March 3, 2015. The district announced in open session at its board meeting on April 9, 2015 that it had received such a legal opinion and provided this legal opinion to a third-party, the San Diego County Office of Education, as support for justifying the use of general obligation bond funds for the solar project. However, the legal opinion has many failings, including the following:

1. The opinion fails to state how the solar project meets the allowable expenditure requirements under the California Constitution.

2. The opinion discusses how the solar project meets the allowable expenditure requirements under Education Code 15100; however, the Education Code is superseded by the California Constitution.

3. The opinion fails to consider the specifics of the agreement between Manzana Energy and the district. For example, the opinion concludes, “the District’s Bond proceeds may be expended for a payment towards the construction and purchase of a solar power system.” However, pursuant to the agreement, the district was not paying for construction (which was not complete); rather, it was paying for early termination of a solar power and services agreement.

4. The opinion refers to another lawyer’s opinion, which could not be obtained due to attorney-client privilege.

In light of these factors, the early termination fee may not have been a permissible expenditure of GO bond funds.

## Furniture Purchases

The district paid for furniture as follows:

| Vendor | Amount Paid | Fund | Payment Date(s) | Items Purchased |
|---|---|---|---|---|
| Culver-Newlin | $ 1,512,011 | 21 | 9/2017-1/2018 | chairs, desks, tables |
| Crawford & Company | $ 161,479 | 21 | 10/2017 | chairs, desks, tables |
| Nelson Adams | $ 62,886 | 21 | 9/2017 | in-wall tables and benches |
| Virco | $ 16,424 | 21 | 9/2017 | desk and chair |
| Magnum Drywall | $ 3,798 | 21 | 9/2017 | metal lockers |
| Robinson Steel | $ 2,632 | 21 | 9/2017 | locker room benches |
| Total | $ 1,759,230 | | | |

The use of GO bond funds to pay for such furniture may not have been in compliance with the bond measure.

## School Funding Reconstruction Services by California Financial Services

The district paid California Financial Services $233,285 from Fund 21 for “School Funding Reconstruction Services” in September 2016. The project involved uploading expenditure data from the district’s financial system and republishing the data in the financial reporting system California Financial Services used to track facilities-related activity. In addition, California Financial Services performed a sorting analysis of the data. Payment for this project had several irregular factors:

1. According to documentation, California Financial Services reconstructed data for the period from May 1, 2004 to June 30, 2015 (11 years, two months) (see further information about the time period below). The district’s general ledger is the official accounting record, and all subsidiary information should balance back to the district’s ledgers, on an annual basis. It is noteworthy that 1) the reconstruction did not extend back to the beginning of the 1997 general obligation bond, and 2) that a partial year of reconstruction was performed even though accounting records are based on a fiscal year.

2. California Financial Services was paid based on the number of years for which it reconstructed expenditure data ($17,500 per year). On July 7, 2016, California Financial Services reported completion of its reconstruction of data for May 1, 2004 through June 30, 2015 (11 years, two months), but the firm invoiced the district for reconstructing data for March 1, 2002 to June 30, 2015 (13 years, 4 months), or two years and two months more than stated in the vendor's description of completed services. California Financial Services has clarified that the additional two years and two months of data were reconstructed and included in the data provided to the district.  There are differences between the documentation reported to the district, the work completed, and the amount paid. The district issued a purchase order for the work after the invoice was received, not at the time the work was authorized; this makes it impossible to determine the planned scope of work.

3. The project included a review of multiple funds (i.e., funds 21, 25, 35, 49, and trustee-maintained accounts) and multiple funding sources (GO bond funds, state funds, CFD funds, COP funds, developer fee funds, and qualified zone academy bond (QZAB) funds). However, the district used general obligation bond funds to pay for the entire cost of the project, which is likely not in compliance with the bond measure.

## Wire Transfers

Many wire transfers were made from Fund 49 from October 2012 through November 2016 for COP payments. FCMAT requested supporting documents for some of the wire transfers, but the district had difficulty providing some of them and was unable to provide others.

FCMAT received some supporting documents, which confirmed that the transfers were for COP payments. However, for many of these wire transactions the district had no record of payee, amounts and other information. The San Diego County Office of Education is the final approver for wire transfers through the County of San Diego treasury. The county office reviews documentation received from the school district prior to approval. However, retention of payment records associated with wire transfers is the responsibility of the district.

FCMAT's finding regarding wire transfers is substantially the same as that of the San Diego County Grand Jury's audit of the district dated April 2016 and published by the Auditor and Controller, Office of Audits and Advisory Services (https://www.sandiegocounty.gov/content/dam/sdc/grandjury/reports/2015-2016/SanYsidroAudit.pdf).

# Bids, Requests for Proposals, and Other Procurement Practices

The San Diego County Office of Education provided FCMAT with detailed general ledger and vendor history data from the district's financial systems for fiscal year 2012-13 through May of fiscal year 2017-18. FCMAT performed the following procedures:

- Analyzed data in vendor history reports and selected individual transactions for review.
- Requested from the district all supporting documents for each selected transaction.
- Reviewed documents for each transaction to determine the following:
  1. Whether authorization was obtained and documented in advance of the expenditure.
  2. Whether the expenditure was appropriate, in accordance with district policy, allowable by law and, if applicable, an appropriate expenditure of bond funds.
  3. Whether goods or services were received and an obligation was incurred.
  4. Whether transactions were processed accurately and in a timely manner, and properly recorded.

FCMAT asked the district for lists of bids and requests for proposals (RFPs) for each fiscal year under review. FCMAT received a master list with information from fiscal year 2004-05 to 2017-18.

Because only six bids took place during the years under review in FCMAT's scope of study, FCMAT requested all files including supporting documents. However, the district could provide supporting documents for only the most recent bid.

For the items reviewed, the district used two different selection processes: public bidding, and requests for proposals (RFPs).

## Public Bidding

Public bidding is commonly known as the lowest bidder process: a district selects the lowest responsive and responsible bidder, in accordance with Public Contract Code 20111.

Public bids must be advertised, and if a job walk to view the work location is conducted, a sign-in sheet should confirm attendance. If a job walk is held, the sign-in sheet is a required item in the bid file documents, showing that the bidder attended the job walk. If the job walk is mandatory, attendance is required for the bidder to be eligible to bid.

Bids are opened and read aloud, and the bidder's name and bid amount is entered on the opening list. Bids consist of several forms, including a list of subcontractors, a bid bond, and other required items. When the governing board awards a bid, an agreement is signed and the selected bidder (contractor) provides a performance bond, payment bond, and insurance certificate. If the project is for public work, the district completes form PWC-100 to register the project with the Department of Industrial Relations so they can track the payment of prevailing wages. The district gives the contractor a notice to proceed. After completion of the work, the district's governing board approves a notice of completion that is filed with the county of jurisdiction.

### Requests for Proposals

Requests for Proposals are used for some professional services.

Government Code 53060 creates an exception to public bidding requirements for "special services and advice" regarding financial, economic, accounting, engineering, legal, or administrative matters, if such persons are "specially trained and experienced and competent to perform the special services required."

Government Code 4526 requires particular selection criteria for "private architectural, landscape architectural, engineering, environmental, land surveying or construction project management" services. The selection must be made based on demonstrated competence and professional qualifications, at fair and reasonable prices. In addition, the selection process must ensure maximum small business participation.

Requests for Proposals are typically used when selecting these professional services. An RFP may be advertised generally or targeted to a selected number of firms. All documents related to the selection process, including proposal, board approval, signed contract, and insurance certificates, are required to be kept on file.

## Bid File Document Testing

School districts are required to keep on file documents related to all procurement activities. Education Code Section 35250 states, "The governing board of every school district shall… (b) keep an accurate account of the receipts and expenditures of school moneys." In addition, the district's Board Policy 3300 states that the superintendent "shall ensure that records of expenditures and purchases are maintained in accordance with law."

The district maintains a master bid list with information from fiscal year 2004-05 to the present. During fiscal years 2012-13 through 2017-18, the period reviewed for this audit, the district issued six bids: four for technology items and two that were facilities-related. As stated earlier, FCMAT requested all files including supporting documentation for all bids awarded during the review period. However, the district provided records for only the most recent bid award, which occurred on June 14, 2018 and was for installation of portable classrooms. The district was unable to produce records for five out of six bids, or 83%.

FCMAT tested documents for the June 14, 2018 bid to determine whether they included 14 documents essential to such a file. Because this project was not yet completed, the notice of completion was considered not applicable at the time of testing, reducing the expected documents to 13. Three of the 13 expected documents, or 23%, were missing. The district's inability to produce complete records for the recent six-year time period indicates poor recordkeeping and/or record retrieval practices. The lack of bid records also calls into question whether required legal procedures were followed. A table showing the bid testing results is provided on the following page.

***San Ysidro Elementary School District***
***Bid Testing***
***Fiscal Years 2012-13 through 2017-18***

| | | | No Documents Provided | Listed on Bid# Master list | Advertisement | Job walk sign-in sheet | Bid opening list | Bid form | Bid Bond | Subcontractor list | Board award | Signed agreement | Payment Bond, Performance Bond | Insurance Certificate | PWC-100 | Notice to Proceed | Notice of Completion | No Exceptions Found | Exception Totals | Exception Percentage | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| # | Bid No. | Bid Description | Exc-ALL | Exc #1 | Exc #2 | Exc #3 | Exc #4 | Exc #5 | Exc #6 | Exc #7 | Exc #8 | Exc #9 | Exc #10 | Exc #11 | Exc #12 | Exc #13 | Exc #14 | NE | TOT | % | |
| 1 | 12-13/334 | Playground Improvements | 1 | | | | | | | | | | | | | | | | 14 | 100% | |
| 2 | 12-13/335 | Network Services, Maintenance, Equipment and Installation for E-Rate Year 16 | 1 | | | | | | | | | | | | | | | | 14 | 100% | |
| 3 | 12-13/336 | Telecommunications and local and long distance services for E-Rate Year 16 | 1 | | | | | | | | | | | | | | | | 14 | 100% | |
| 4 | 14-15/337 | Wide Area Network Ethernet Circuit Upgrade and Internet access for Erate Funding | 1 | | | | | | | | | | | | | | | | 14 | 100% | |
| 5 | 14-15/338 | Wireless, Network, Maintenance, Equipment and Installation for Erate | 1 | | | | | | | | | | | | | | | | 14 | 100% | |
| 6 | 17-18/339 | 2018 2 Site Portable Addition - Ocean View Hills and Vista Del Mar MS Project | | | 1 | | 1 | | | | | | | | 1 | | N/A | | 3 | 23% | [3/13] |
| | | TOTAL EXCEPTIONS BY TYPE | 5 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | | | |
| | | PERCENTAGE OF NO DOCUMENTATION | 83% | | | | | | | | | | | | | | | | | | |

## Request for Proposal (RFP) Testing

The district's Board Policy 7140 states, "The Superintendent or designee shall devise a competitive process for the selection of architects and structural engineers," and its Administrative Regulation 7140 further requires "contractors for any architectural, landscape architectural, engineering, environmental, land surveying or construction project management services" to be selected as required by Government Code 4526.

The district does not issue tracking numbers for RFPs and does not keep an RFP master list. Therefore, FCMAT was not able to ascertain whether the district provided records of all RFPs issued between 2012-13 and 2017-18.

FCMAT reviewed RFPs provided as well as any documents provided regarding contracting with private architectural, landscape architectural, engineering, environmental, land surveying or construction project management services for which an RFP should have been issued. In seven of the 11 such instances reviewed, there was no evidence of an RFP or other selection process that included the required criteria.

Every instance reviewed had one or more exceptions of some type, including documents that were missing or not provided. The number of exceptions found indicates that the district has insufficient document retention practices, and may indicate that the district does not have a comprehensive RFP selection process, does not follow its own processes, and/or does not fully document processes used. This calls into question whether the district's RFP procedures and executed contracts and payments were in compliance with legal requirements.

The table below shows the number of times an exception occurred in each area listed for 11 RFPs or instances in which an RFP should have been issued. In the four cases in which an RFP was completed, at least 36% of necessary documents were missing. In seven instances (64% of the time) an RFP should have been completed but was not. This demonstrates a lack of knowledge of professional services procurement requirements.

***San Ysidro Elementary School District***
***RFP Testing***
***Fiscal Years 2012-13 through 2017-18***

| | | | | | No RFP done | Listed on RFQ/ RFP Master/# list | Board approval to issue RFQ/ RFP | Advertisement | RFQ/RFP document | Interested/ Submitting firms list | Successful firm's SOQ/Proposal | Other Firms' SOQs/Proposals | Evaluation/rating documents | Board award-selection | Board agreement approval | Signed Agreement | No Exceptions Found | Total Exceptions | RFP Exceptions Percentage |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| # | Fiscal Year | Type of Service | Site | Vendor | NO RFP | Exc #1 | Exc #2 | Exc #3 | Exc #4 | Exc #5 | Exc #6 | Exc #7 | Exc #8 | Exc #9 | Exc #10 | Exc #11 | NE | TOT | %= #/11 |
| 1 | 2012-13 | LLB Construction | Beyer | Echo- Pacific | | 1 | | | | | 1 | 1 | | | 1 | | | 4 | 36% |
| 2 | 2012-13 | Architecture | Beyer, LM, Smythe, SYMS | LPA Architects | | 1 | | 1 | | 1 | 1 | 1 | | | | | | 5 | 45% |
| 3 | 2012-13 | Surveying | Beyer | Salazar Surveying | 1 | | | | | | | | | | | | | 1 | |
| 4 | 2013-14 | Surveying | LM, Smythe, SYMS | Guida Surveying | 1 | | | | | | | | | | | | | 1 | |
| 5 | 2014-15 | Architecture | VDM Shade Structure | Aguilar & Associates | 1 | | | | | | | | | | | | | 1 | |
| 6 | 2015-16 | Construction Management | LM, Smythe, Willow, other | Balfour Beatty | | 1 | | | | | | 1 | | | 1 | 1 | | 4 | 36% |
| 7 | 2015-16 | Energy Services | LM, Smythe, SYMS, DO | Amersco | | 1 | | 1 | | | | 1 | 1 | | | | | 4 | 36% |
| 8 | 2016-17 | Architecture | LM, Smythe Modernizations | Aguilar & Associates | 1 | | | | | | | | | | | | | 1 | |
| 9 | 2016-17 | Architecture | VDM, OVH Reconfiguration | Aguilar & Associates | 1 | | | | | | | | | | | | | 1 | |
| 10 | 2017-18 | Surveying | VDM, OVH Portables | BWE Engineering | 1 | | | | | | | | | | | | | 1 | |
| 11 | 2017-18 | Architecture | VDM, OVH Portables | Baker Nowicki | 1 | | | | | | | | | | | | | 1 | |
| | | TOTAL EXCEPTIONS BY TYPE | | | 7 | 4 | 0 | 2 | 0 | 1 | 2 | 4 | 1 | 0 | 2 | 1 | 0 | | |
| | | PERCENTAGE OF "NO RFP DONE" | | [7/11] | 64% | | | | | | | | | | | | | | |
| | | PERCENTAGE OF OTHER EXCEPTIONS | | [#/4] | | 100% | 0% | 50% | 0% | 25% | 50% | 100% | 25% | 0% | 50% | 25% | 0% | | |

Although all areas of exception raise concern, those that occur often are typically indicative of significant deficiencies in the district's process and/or recordkeeping.

## Vendor Payment Transaction Testing

FCMAT selected 64 payment transactions made during fiscal years 2012-13 through 2017-18 for a review of the district's vendor payment and documentation processes. FCMAT requested invoices and all other supporting documents for each payment transaction selected. The district provided documents for 56 of the 64 transactions, or 88%.

The district should have been able to provide records for all selected transactions. The inability to produce the requested records indicates a lack of proper payment processing, and/or insufficient recordkeeping.

The criteria for testing the selected transactions were as follows:

- The payment represented a true and accurate obligation of the district.
- The payment amount was accurate.
- The timing of the payment was appropriate.
- District-established payment procedures were followed.

Each transaction was traced to supporting documents including:

- Purchase order
- Agreements and/or proposals
- Invoice
- Schedule of values
- Payment log

The district changed its financial system in mid-2015, and thus changed its vendor payment process. Before that time, purchase orders were printed on NCR carbonless paper forms using an impact printer. The accounting copies of the purchase orders provided for fiscal year 2012-13 through a portion of fiscal year 2015-16 were illegible in some cases and only partially legible in many others. FCMAT treated illegible information as missing information.

The table on the following pages shows the exceptions found during testing, including the total number and percentage of exceptions in each area.

***San Ysidro Elementary School District***
***Selected Vendor Transaction Testing***
***Fiscal Years 2012-13 through 2017-18***

| Document Number | Fund | Date | Vendor | Vendor / Description | Amount | No Documents Provided Exc #1 | No Invoice Exc #2 | No PO copy OR PO not signed/dated Exc #3 | No Agreement / Proposal / Quote / Schedule Exc #4 | No Schedule of Values/backup (as applicable) Exc #5 | No NOC filed if retention payment Exc #6 | No Payment history tracking sheet Exc #7 | Invoice detail inade-quate/inaccurate Exc #8 | Approval signatures missing Exc #9 | Purchase Order dated after invoice Exc #10 | Hand written chang-es without initial Exc #11 | Invoice & PO de-scriptions/$ conflict Exc #12 | Accepted proposal & PO in conflict Exc #13 | No Exceptions Found NE |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TR 01 | 21 | 10/18/12 | ECHO PACIFIC CONSTRUCTION INC | ECHO PA40597EXPADD | $100,000 | | | | | | | \| | | | \| | | | | |
| TR 02 | 21 | 10/29/12 | ECHO PACIFIC CONSTRUCTION INC | ECHO PA40334EXPADD | $10,000 | | | | \| | \| | | \| | \| | | | | \| | | |
| TR 03 | 21 | 10/29/12 | ECHO PACIFIC CONSTRUCTION INC | ECHO PA40334EXPADD | $10,000 | | | | \| | \| | | \| | \| | | | | \| | | |
| TR 04 | 21 | 10/29/12 | ECHO PACIFIC CONSTRUCTION INC | ECHO PA40334EXPADD | $10,000 | | | | \| | \| | | \| | \| | | | | \| | | |
| TR 05 | 21 | 10/29/12 | ECHO PACIFIC CONSTRUCTION INC | ECHO PA40334EXPADD | $10,000 | | | | \| | \| | | \| | \| | | | | \| | | |
| TR 06 | 21 | 10/29/12 | ECHO PACIFIC CONSTRUCTION INC | ECHO PA40334EXPADD | $10,000 | | | | \| | \| | | \| | \| | | | | \| | | |
| TR 07 | 21 | 10/29/12 | ECHO PACIFIC CONSTRUCTION INC | ECHO PA40334EXPADD | $5,856 | | | | \| | \| | | \| | \| | | | | \| | | |
| TR 08 | 21 | 10/29/12 | ECHO PACIFIC CONSTRUCTION INC | ECHO PA40334EXPADD | $3,393 | | | | \| | \| | | \| | \| | | | | \| | | |
| TR 09 | 21 | 3/14/13 | ECHO PACIFIC CONSTRUCTION INC | ECHO PA30019EXPADD | $338,900 | | | | \| | | | \| | | | | \| | \| | \| | |
| TR 10 | 21 | 4/9/13 | ECHO PACIFIC CONSTRUCTION INC | ECHO PA30192EXPADD | $463,632 | | | | \| | | | \| | | | | \| | \| | \| | |

| Document Number | Fund | Date | Vendor | Vendor / Description | Amount | Exc #1 No Documents Provided | Exc #2 No Invoice | Exc #3 No PO copy OR PO not signed/dated | Exc #4 No Agreement / Proposal / Quote / Schedule | Exc #5 No Schedule of Values/backup (as applicable) | Exc #6 No NOC filed if retention payment | Exc #7 No Payment history tracking sheet | Exc #8 Invoice detail inade-quate/inaccurate | Exc #9 Approval signatures missing | Exc #10 Purchase Order dated after invoice | Exc #11 Hand written chang-es without initial | Exc #12 Invoice & PO de-scriptions/$ conflict | Exc #13 Accepted proposal & PO in conflict | NE No Exceptions Found |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TR 11 | 01 | 10/8/14 | A & L GLASS AND MIRROR | A AND L GLASS & MIRROR | $13,821 | | | I | | | | | | I | | | | | |
| TR 12 | 01 | 3/17/15 | A & S FLOORING | A&S FLOORING | $3,734 | | | | | | | | I | | | | I | | |
| TR 13 | 01 | 4/20/15 | A & S FLOORING | A&S FLOORING | $13,225 | | | | | | | | | | | | | | I |
| TR 14 | 01 | 10/14/15 | RGC CONSTRUCTION INC | RGC COA70378EXPADD | $13,678 | | | | | | | | | | | | | | I |
| TR 15 | 01 | 12/7/15 | RGC CONSTRUCTION INC | RGC COA70438EXPADD | $4,450 | | | | I | | | | | | I | | | | |
| TR 16 | 01 | 2/9/16 | HURRICANE & POWAY FENCE COMPANY | HURRICA70451EXPADD | $14,997 | | | | | | | | | | | | | | |
| TR 17 | 21 | 8/19/16 | CALIFORNIA FINANCIAL SERVICES | CALIFORNIA-009 | $233,285 | | | | | | | I | | | I | | | | |
| TR 18 | 21 | 6/12/17 | ANYTIME SIGN SOLUTIONS | ANYTIME SI-001 | $288 | | | | | | | | | | | | | I | |
| TR 19 | 21 | 8/24/17 | C2 IMAGING | C2 IMAGING-001 | $4,816 | | | | I | | | | | | I | | | | |
| TR 20 | 21 | 9/14/17 | NELSON ADAMS NACO | NELSON ADA-001 | $62,886 | | | | I | | | | | | | | | | |
| TR 21 | 21 | 9/14/17 | CULVER-NEWLIN, INC | CULVER-NEW-001 | $735,313 | | | | | | | | | | | | | | |
| TR 22 | 21 | 9/15/17 | CULVER-NEWLIN, INC | CULVER-NEW-001 | $512,342 | | | | | | | | | | | | | | |
| TR 23 | 21 | 10/6/17 | CRAWFORD & CO | CRAWFORD-001 | $81,526 | | | | | | | | | | | | | | |
| TR 24 | 21 | 10/6/17 | CRAWFORD & CO | CRAWFORD-001 | $80,228 | | | | | | | | | | | | | | |
| TR 25 | 21 | 10/13/17 | MAGNUM DRYWALL | MAGNUM-001 | $3,798 | | | | | I | | | I | I | | | | | |
| TR 26 | 21 | 12/18/17 | VECTOR USA | VECTOR-001 | $29,592 | | | | | | | | | | | | | | |
| TR 27 | 49 | 8/23/12 | VIRCO INC | VIRCO INC EXPADD | $4,310 | | | I | I | | | | | I | | | | | |
| TR 28 | 21 | 9/25/12 | CALIFORNIA BANK & TRUST | CALIFOA40482EXPADD | $966 | | | | I | I | I | I | | | I | | | | |

| Document Number | Fund | Date | Vendor | Vendor / Description | Amount | No Documents Provided<br>Exc #1 | No Invoice<br>Exc #2 | No PO copy OR PO not signed/dated<br>Exc #3 | No Agreement / Proposal / Quote / Schedule<br>Exc #4 | No Schedule of Values/backup (as applicable)<br>Exc #5 | No NOC filed if retention payment<br>Exc #6 | No Payment history tracking sheet<br>Exc #7 | Invoice detail inadequate/inaccurate<br>Exc #8 | Approval signatures missing<br>Exc #9 | Purchase Order dated after invoice<br>Exc #10 | Hand written changes without initial<br>Exc #11 | Invoice & PO descriptions/$ conflict<br>Exc #12 | Accepted proposal & PO in conflict<br>Exc #13 | No Exceptions Found<br>NE |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TR 29 | 21 | 2/26/13 | ARBORGATE CONSULTING | ARBORGA4100IEXPADD | $4,200 | | | 1 | | | | | | | | | | | |
| TR 30 | 21 | 12/10/13 | GUIDA SURVEYING | GUIDA A50351EXPADD | $4,480 | | | | | | | | | | | | | | |
| TR 31 | 21 | 6/16/14 | ERIC HALL & ASSOCIATES | ERIC HA41067EXPADD | $394 | | | | 1 | | | 1 | | | 1 | | 1 | | |
| TR 32 | 21 | 8/27/14 | CITY TREASURER | THE CIA60312EXPADD | $6,200 | | 1 | | | | | 1 | 1 | 1 | | | | | |
| TR 33 | 49 | 8/14/14 | UNKNOWN | CANCEL WARRANT | $185,000 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| TR 34 | 21 | 2/9/15 | LPA | LPA A60791EXPADD | $1,920 | | | | 1 | | | 1 | | | 1 | | | | |
| TR 35 | 21 | 9/4/15 | LEAL & TREJO | LEAL &A70361EXPADD | $2,758 | | | 1 | 1 | | | 1 | | | | | | | |
| TR 36 | 01 | 10/23/15 | KYA SERVICES | KYA SEA70418EXPADD | $39,730 | | | | | | | 1 | | 1 | | | | | |
| TR 37 | 49 | 11/16/16 | UNKNOWN | WIRE TRANSFERS | $48,412 | | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| TR 38 | 49 | 6/30/17 | UNKNOWN | Debt Service - Interest | $155,810 | | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| TR 39 | 49 | 6/30/17 | UNKNOWN | Other Debt Service - Principal | $840,000 | | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| TR 40 | 01 | 10/4/16 | SOUTHLAND TECHNOLOGY | SOUTHLAND -001 | $45,568 | | | | | | | 1 | | 1 | | | | | |
| TR 41 | 01 | 10/27/16 | AMERESCO | AMERESCO-001 | $576,801 | | | | | | | 1 | | | 1 | | | | |
| TR 42 | 01 | 1/23/17 | CULVER-NEWLIN, INC | CULVER-NEW-001 | $183,352 | | | | | 1 | | 1 | 1 | 1 | | | 1 | 1 | |
| TR 43 | 21 | 4/25/17 | AGUILAR & ASSOCIATES | AGUILAR & -001 | $698,616 | | | | | | | 1 | | | | | | | |
| TR 44 | 21 | 7/24/17 | BALFOUR BEATTY, INC | BALFOUR-001 | $8,623,991 | | | | 1 | | | 1 | | | | | | | |
| TR 45 | 49 | 8/18/17 | THE BANK OF NEW YORK MELLON | THE BANK-001 | $1,294,594 | | | | 1 | | | 1 | | | 1 | | | | |
| TR 46 | 21 | 10/20/17 | MANZANA ENERGY | MANZANA EN-001 | $2,376,292 | | | | 1 | 1 | | 1 | 1 | | 1 | | | | |
| TR 47 | 49 | 1/30/18 | U.S. BANK NATIONAL ASSOCIATION | U.S. BANK-002 | $1,082,664 | | | | 1 | | | 1 | | 1 | 1 | | | | |

| Document Number | Fund | Date | Vendor | Vendor / Description | Amount | Exc #1 No Documents Provided | Exc #2 No Invoice | Exc #3 No PO copy OR PO not signed/dated | Exc #4 No Agreement / Proposal / Quote / Schedule | Exc #5 No Schedule of Values/backup (as applicable) | Exc #6 No NOC filed if retention payment | Exc #7 No Payment history tracking sheet | Exc #8 Invoice detail inadequate/inaccurate | Exc #9 Approval signatures missing | Exc #10 Purchase Order dated after invoice | Exc #11 Hand written changes without initial | Exc #12 Invoice & PO descriptions/$ conflict | Exc #13 Accepted proposal & PO in conflict | NE No Exceptions Found |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| TR 48 | 49 | 2/13/18 | CALIFORNIA FINANCIAL SERVICES | CALIFORNIA-009 | $20,000 | | | | 1 | | | 1 | | | 1 | | | | |
| TR 49 | 40 | 3/8/18 | MANZANA ENERGY | MANZANA EN-001 | $617,836 | | | | 1 | 1 | 1 | 1 | 1 | | 1 | | | | |
| TR 50 | 40 | 4/20/18 | NINYO & MOORE | NINYO & M-001 | $17,710 | | | | | | | 1 | | | | | | | |
| TR 51 | 25 | 4/24/18 | BAKER NOWICKI | BAKER-001 | $46,514 | | | | | | | 1 | | | | | | | |
| TR 52 | 25 | 4/30/18 | CALIFORNIA FINANCIAL SERVICES | CALIFORNIA-009 | $15,750 | | | | 1 | | | 1 | | | 1 | | | | |
| TR 53 | 25 | 5/7/18 | SILVER CREEK INDUSTRIES, INC | SILVER-001 | $36,564 | | | | | | | 1 | | | 1 | | | | |
| TR 54 | 49 | 10/1/12 | UNKNOWN | AUG WIRE TRANSFER | $24,995 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| TR 55 | 49 | 10/1/12 | UNKNOWN | AUG WIRE TRANSFER | $80,295 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| TR 56 | 49 | 2/12/13 | UNKNOWN | WIRE TRANSFERS | $76,297 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| TR 57 | 49 | 8/16/13 | UNKNOWN | WIRE TRANSFER | $76,297 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| TR 58 | 49 | 8/16/13 | UNKNOWN | WIRE TRANSFER | $130,000 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| TR 59 | 49 | 1/17/13 | JMJ CONSTRUCTION | JMJ CONSTRU EXPADD | $75,525 | | | 1 | | 1 | | | | | 1 | | | | |
| TR 60 | 21 | 8/21/12 | DOLINKA GROUP | DOLINKA40022EXPADD | $10,336 | | | | 1 | 1 | | 1 | 1 | | | | 1 | | |
| TR 61 | 21 | 4/17/15 | LEAL & TREJO | LEAL &A61092EXPADD | $27,770 | | | 1 | 1 | | | 1 | | | 1 | | | | |
| TR 62 | 21 | 5/8/15 | MANZANA ENERGY | MANZANA61207EXPADD | $7,128,875 | | | | | | | 1 | 1 | | 1 | | 1 | | |
| TR 63 | 21 | 6/30/15 | RBF | RBF | $44,038 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| TR 64 | 21 | 6/30/15 | RBF | RBF | $44,038 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | | | | | | | |
| | | | | | TOTAL EXCEPTIONS | 8 | 12 | 17 | 37 | 25 | 13 | 45 | 15 | 8 | 18 | 2 | 14 | 4 | 2 |
| | | | | | | 13% | 19% | 27% | 58% | 39% | 20% | 70% | 23% | 13% | 28% | 3% | 22% | 6% | 3% |

All areas of exception warrant attention, but those that occur often are unlikely to be random errors and more likely to indicate weaknesses in the district's procedures for verification before payment and/or recordkeeping.

For contracts for which multiple invoices were paid, the district did not provide any documents to show that the department responsible for approving a particular invoice tracks invoices paid against a particular contract. Without a tracking mechanism, overpayments are possible. Creating a single purchase order for the full contract amount at the beginning of the contract helps limit the amount paid to the value of the contract; however, the district does not always do this.

In some instances, the district did not issue a purchase order for a contract until it was needed to pay the first invoice or a subsequent invoice. This is not a best business practice. Once a contract is approved by a district's governing board and signed, the next step in the process should be to issue a purchase order. Issuing a purchase order records the financial obligation of the contract and encumbers funds for this obligation. In addition, a district can usually pay invoices more promptly when they are received with a purchase order already in place. In one instance, the district issued a separate purchase order for each payment under a contract. This is a not a best business practice because it negates the purchase recording, tracking and limiting functions of a purchase order.

The copies of purchase orders the district provided from its previous financial system listed the account number of the source of funding. The copies of purchase orders from the new financial system do not list the source of funding. This is not a good business practice because it reduces the openness and availability of information, which prevents those who review purchase orders from verifying the source of funding and increases the possibility of undetected errors.

# Other Irregular Practices

## Payment Practices

Some of the documents received for the 64 transactions mentioned above related to payment of an invoice for furniture and included packing slips with notations that some furniture items were backordered or missing. No follow-up documents were found to indicate that these items were later received before the invoice was paid. Based on the file records, this appears to be an instance of incomplete due diligence on the part of both the department responsible for receiving the furniture and the Accounts Payable Department. Individuals who subsequently received the backordered or missing items should have documented the receipt of the items and provided this documentation to the Accounts Payable Department. The Accounts Payable Department should not have paid the invoices in the full amount without documents that showed receipt of all items. It is possible but not probable that the lack of documentation is due to poor record-keeping, because the original delivery receipt was well documented and was provided to accounts payable.

On February 7, 2015 the district's governing board held a special meeting for two purposes: 1) to approve a legal services agreement with Leal & Trejo, PC, and 2) to conduct a closed session conference with legal counsel regarding pending litigation against the district by EcoBusiness Alliance. The minutes of that meeting state that the board approved the agreement with Leal & Trejo, PC, effective February 7, 2015. Leal & Trejo, PC was approved as legal counsel, and then apparently immediately following that approval went into closed session with the board to advise the board about pending litigation with EcoBusiness Alliance.

It is highly unusual to have a newly hired law firm immediately advise a district on a litigation issue without advance preparation. Leal & Trejo, PC subsequently submitted an invoice dated April 3, 2015. That invoice contains 25 billing entries totaling $5,618 from January 23 through February 5, 2015, all related to the litigation. Thus Leal & Trejo, PC were working on this issue before the closed session conference. However, Leal & Trejo, PC was not approved to do work until February 7, 2015.

The effective date of February 7, 2015 was explicitly stated in the board approval, which indicates it was intentional. If retroactive approval was desired, the board could have passed the approval as a ratification. However, because that was not done, any work done prior to February 7, 2015 was not authorized and was therefore not compensable. Leal & Trejo, PC should not have billed for this work, and the district should not have paid for it. The district should seek reimbursement for these improper payments.

At its August 23, 2016 meeting, the district's governing board approved the use of a so-called "piggyback" bid from the Hawthorne School District for the purchase of furniture from Culver-Newlin. Piggyback contracting is the use of a public bid previously awarded by another agency. In piggyback contracting, the agency originating the bid issues a bid that states it can be piggy-backed. The governing board of the originating agency approves the bid with a specified period of validity. Other agencies that wish to use the bid by piggybacking on it may do so during the period for which it is valid.

The governing board of the agency that piggybacks on a bid must approve the use of the piggy-back bid. Typically, a board approves use of its bid for a period of time, such as for the fiscal year. The approval is then valid for any purchases that the district may desire to make using that bid. The district's board approved an agreement with Culver-Newlin valid from July 1, 2016 through June 30, 2017. No dollar amount was given in the board item, but the funding source was specified as “General Fund/Redevelopment Fund.” The district then issued a purchase order on September 22, 2016 in the amount of $183,352.12 to Culver-Newlin for furniture for the district office, funded by the general fund. This purchase order was in compliance with the August 23, 2016 board approval.

On May 23, 2017 the district issued two purchase orders to Culver-Newlin for furniture for La Mirada Elementary School ($512,342.31) and Smythe Elementary School ($738,821.82). No documents were provided to show that these purchase orders had a separate board approval. Therefore, they were likely relying on the prior board approval. However, these two purchase orders were funded from Fund 21, — monies from the 1997 bond — which is not a source authorized in the board approval. Thus, these two purchase orders did not use a funding source approved at the August 23, 2016 board meeting. In addition, as mentioned previously in this report, furniture is not an allowable use of the 1997 bond funds.

The district’s Board Policy 3314 states:

> The Superintendent or designee shall . . . ensure that warrants have appropriate documentary support verifying that all goods and services to be paid for have been delivered or rendered in accordance with the purchase agreement.

District personnel responsible for confirming and documenting delivery or receipt of goods or services have not done so routinely, nor have they routinely confirmed that services received and contracting performed matched board-approved contract requirements.

## La Mirada and Smythe Elementary School Modernizations

It is common for a school district to contract with a general contractor for construction projects. This is done through a sealed bid process, in which one general contractor with the lowest responsive and responsible bid is awarded the contract. The general contractor uses subcontractors for specific trades (e.g., electrical, plumbing) and may also perform work themselves. A general contractor manages the construction project and all the subcontractors. A district has a contract only with the general contractor.

Another method of contracting for construction work is known as multi-prime contracting. This is when a district contracts directly and separately with all contractors in each major trade (e.g., electrical, plumbing and others) using a sealed bidding process to select the lowest responsive and responsible bidder. The contractor for each trade is considered a prime contractor and not a subcontractor. Because this method does not use a general contractor to manage the prime contractors, a district needs to manage the prime contractors itself or hire a firm to do the management.

As described in Government Code 4525, construction management services manage and supervise the construction contractors that perform the work. Pursuant to Government Code 4526, construction management services are considered professional services and therefore, as discussed earlier in this report, they are selected through a competitive process that is competence-based, such as an RFP, not based on the lowest bid.

In October 2015 the district’s governing board approved issuing an RFP for “Construction Management Multi-Prime Services” for site modernization projects at La Mirada and Smythe elementary schools, Willow Middle School, and “Multi-Projects.” This RFP document describes the services needed as construction management of multi-prime construction projects.

On December 12, 2015 the governing board approved Balfour Beatty as the firm to manage these multi-prime modernization projects.

On April 14, 2016 the board approved a lease-leaseback agreement with Balfour Beatty for "construction management of modernization projects" at La Mirada and Smythe elementary schools.

### *Balfour Beatty Timeline for La Mirada and Smythe Elementary Schools*

| Date | Source Type | Description |
|---|---|---|
| 10/22/2015 | Board Item | Approve issuance of RFP for Construction Management Multi-Prime Services |
| 12/12/2015 | Board Item | Approve Balfour Beatty "as the firm that will manage multi-prime modernization projects" |
| 4/14/2016 | Board Item | Adopt Resolution 15/16-3126 authorizing Supt/designee to execute/deliver Lease-Leaseback agreement with Balfour Beatty relating to the multiprime modernization projects at La Mirada and Smythe elementary schools |
| 4/14/2016 | Minutes | 11.5: Resolution 15/16-3126 Approving the Lease-Leaseback Agreement with Balfour Beatty for the Multi-Prime Construction Projects |
| 4/14/2016 | Board Item | Approve the Site Lease and Facilities Lease Agreement with Balfour Beatty for construction management of modernization projects at La Mirada and Smythe elementary schools |
| 4/14/2016 | Minutes | Revised Consent Calendar item 12B.5 Lease/Leaseback Agreement with Balfour Beatty Construction and changed to: SITE LEASE AND FACILITIES LEASE AGREEMENTS WITH BALFOUR BEATTY FOR MANAGEMENT OF MULTI-PRIME PROJECTS |
| 11/10/2016 | Board Item | Revise Site Lease/Facility Lease: Amend GMP from $3M to $18,918,073 |
| 6/2/2017 | Board Item | Approve the amendment to the Guaranteed Maximum Price [to $22,945,064] |

A lease-leaseback agreement is another method of contracting for construction work. Under this method, the contractor (sometimes called the developer) is selected through a competitive RFP process. The selection is made based on criteria focused on the best value, and there is not a requirement to select the lowest bidder. The lease-leaseback contractor hires subcontractors as required, functions as a general contractor, and manages the project. The district contracts only with the lease-leaseback contractor.

Lease-leaseback agreements are for construction services. By contrast, construction management services agreements are for professional services, and construction management firms are prohibited from performing construction services on projects to which they are assigned as construction managers.

Documents suggest that sometime between the district's December 2015 and April 2016 board meetings, the district determined that, for modernizations at La Mirada and Smythe elementary schools, it wanted to use the lease-leaseback method of contracting for construction instead of the construction management multi-prime method.

At its April 14, 2016 meeting, the district's governing board adopted Resolution 15/16-3126, which authorized the superintendent or superintendent's designee to execute and deliver a lease-leaseback agreement with Balfour Beatty for the multi-prime modernization projects at La Mirada and Smythe elementary schools. If the district uses a lease-leaseback to contract for construction with a single entity that acts as a general contractor, it is by definition not using a multi-prime construction delivery method. Misleading language in the resolution may have had the purpose or effect of avoiding conducting another RFP process.

Education Code 17406 is the statutory authority for the lease-leaseback method of contracting for construction services. Education Code 17406(a)(1) requires the lessee ". . . to construct on the demised premises, or provide for the construction thereon of, a building or buildings for the use of the school district during the term of the lease . . .” The district’s RFP for multi-prime construction management services does not mention construction services, yet its lease-leaseback agreement requires construction services. The district awarded a lease-leaseback agreement for construction work based on an RFP for professional construction management services.

In January 2014, the Legislature established a requirement in Public Contract Code 20111.6 for prequalification of general contractors and electrical, mechanical, and plumbing subcontractors for projects for which an entity intends to request state school bond funding and that have a projected cost of $1 million or more. In January 2015, the Legislature clarified that lease-leaseback agreements were included in this requirement. Assembly Bill 566, effective January 2016, implemented the prequalification requirement for lease-leaseback projects, regardless of the funding source.

No records were provided that indicate the district prequalified Balfour Beatty as a general contractor before it awarded Balfour Beatty a lease-leaseback agreement on April 14, 2016, even though the district had communicated with its law firm on the matter. Specifically, according to billing statement 15872 for March 2016 – Facilities from the law firm of Leal & Trejo, the district’s Business Services Division communicated with the law firm “regarding Lease-leaseback agreements” on March 7, 2016, and according to the law firm’s billing 15930 for April 2016, the firm conferred with the district’s former maintenance, operations, transportation and facilities director on April 11, 2016 regarding “findings on bidding procedures for construction management services.”

The district’s Board Policy 3311 states, “The Superintendent or designee shall develop procedures to be used for rating bidders for award of contracts which, by law or Board policy, require prequalification.”

When the district amended the lease-leaseback agreement on June 2, 2017, it included in the amendment the prequalification requirements in Public Contract Code 20111.6 concerning subcontractors. These actions indicate that the district was likely aware of the requirements when it was amended in June 2017.

## Solar Project Contract and Pricing

### Contracting

As referenced earlier in this report, the district and Manzana Energy entered into a solar power and services agreement dated October 8, 2008 and a first addendum dated April 9, 2015. The contract was set up as a power purchase agreement, under which the district would purchase the power produced by the solar system over 25 years, and Manzana Energy would own, operate and maintain the system during that time. At the end of 25 years, Manzana Energy could either remove the system from the district’s property and retain ownership, or the district could purchase the system at fair market value. The district terminated the contract in October 2011 for lack of performance because no solar systems had been built in three years.

Manzana Energy alleged that the district terminated the contract only 15 days into a 30-day termination notice and did not enter into good faith negotiations and binding arbitration, which led to the wrongful termination lawsuit in April 2012. In February 2014, a judgment was awarded against the district in favor of Manzana Energy for wrongful termination.

The contract addendum was submitted to the district’s governing board for consideration and approval, and was explained to the board by the interim superintendent, the president of

Manzana Energy, and the partner and a former attorney from the law firm of Leal & Trejo. The solar contract was on the board agenda for three meetings in a row (February 28, March 12, and March 26, 2015), but was tabled at each of these meetings. The board ultimately received and approved the addendum to the contract with Manzana Energy on April 9, 2015 at a special board meeting.

The addendum with Manzana Energy was approved unanimously by the district's governing board. In interviews, multiple individuals confirmed that board members felt contract approval was the best option at this point, given that Manzana Energy had been awarded a judgment against the district in February 2014 in the amount of $12 million. In the board's view, the only alternative to approving the addendum with Manzana Energy would have been to pay the judgment, which the district could not afford to do at the time.

Although the judgment was reduced following approval of the addendum, the district was still required to pay $1.6 million, purportedly for legal fees, pursuant to a settlement and mutual release eventually entered into on July 15, 2015. Two days later, the district executed a promissory note for this amount, payable to Manzana Energy within five years at a 5% interest rate. Then, on November 12, 2015, the district paid Manzana Energy $600,000 to resolve the settlement and mutual release, pursuant to the district's Board Resolution No. 15/16-3125.

For illustration, Appendix B of this report contains a timeline of the events related to the solar project.

## Pricing

On the surface, the solar project contract pricing appears to be far higher than the market rates for similar projects.

According to project contract documents, and as noted in the discussion of bond spending earlier in this report, Manzana Energy was to be paid $23,762,915 for early termination of the contract, pursuant to the solar power and services agreement first addendum, dated April 9, 2015. Manzana Energy contracted out the work to Cenergy Power, the primary subcontractor, for $4,400,000 according to a letter dated April 11, 2018 from the CEO of Cenergy Power to the president of Manzana Energy and applicable district representatives. The letter was titled, "Re. San Ysidro School District Solar Projects – Notice of Default, Stop Notice and Request for Meeting." Absent other expenses, this would result in significant profit for Manzana Energy.

Manzana Energy was required to install a solar system that produced 3,763,000 kilowatt hours (kWh) of electricity annually, per the contract addendum. Based on a conservative assumption of 1,500 kWh annually per kilowatt of generating capacity, this would result in a system size estimated on the high end to be 2.5 megawatts (MW). A conservative estimate of the average price many other school districts pay as a result of using a competitive RFP process is approximately $3.50 per watt. Many school districts pay less than this for carport solar projects at multiple school sites, and San Ysidro Elementary School District's project included a significant quantity of ground-mounted systems, which cost even less than carports.

FCMAT's estimates are based on conservative pricing in 2015; many large multisite solar projects bid within the last year have received pricing from multiple vendors in the range of $2.50 to $3.00 per watt. FCMAT's conservative estimates in this report are based on consultation with a principal at ARC Alternatives, an energy consulting firm with expertise and experience implementing solar energy projects.

Based on the price the San Ysidro Elementary School District paid for solar installations from Manzana Energy, FCMAT estimates that the district paid at least $9.50 per watt, and possibly more. If it had paid the average market rate of $3.50 per watt, its cost for the solar project would have been $8,750,000; however, it paid Manzana Energy $15,012,915 more than this. There may be a variety of reasons for the higher price, including the 2008 basis of costs when the original power purchase agreement was approved (as opposed to 2015); potential design, engineering, redesign and reengineering (including compliance with new building code requirements); the loss of benefits to the contractor, such as tax incentives and rebates that would have accrued during the 25-year term of the agreement; sunk costs by the contractor from the original 2008 contract; and potential carrying costs by the contractor over the seven-year delay.

## Citizens' Oversight Committee

The district's bond measure in 1997, Proposition C, was issued under the authority of Proposition 46 (1986). This type of bond requires the approval of two-thirds of voters but does not require a citizens' oversight committee; however, a district may establish one if desired.

In April 2016, the San Diego County Grand Jury issued an audit report that faulted the district for lack of transparency in its bond program and COPs management. Approximately four months later, at its August 23, 2016 meeting, the district's governing board approved a resolution of intent to establish a citizens' oversight committee. Then, at its October 13, 2016 board meeting, the board approved a resolution to establish the committee and approved the policy under which the committee would operate.

The district began advertising for members of the committee in May 2017, and it began receiving applications for membership toward the end of July 2017. At the beginning of September 2017, the superintendent at that time was terminated, and no further work was done to fill positions on the committee. At the time of this audit, more than a year later, no committee members have been appointed.

In 2000, the voters of California passed Proposition 39, which established another type of bond that requires approval from 55% of voters to pass and requires a citizens' oversight committee, an annual report, and annual financial and performance audits. Proposition 39 includes specific requirements regarding the duties and membership of the citizens' oversight committee.

Because a committee is not required for bonds passed under Proposition 46, such as the district's Proposition C bond, there are no requirements regarding the duties or membership of such a committee other than those a school district's governing board establishes. When the San Ysidro Elementary School District established the requirements for its citizens' oversight committee, the governing board included some of the same requirements as Proposition 39 specifies including membership requirements, some duties, an annual report, and an annual financial audit.

The district has now hired a permanent superintendent and a permanent chief business official, and has engaged a facilities consultant through the San Diego County Office of Education. It would benefit the district to recruit members and form a citizens' oversight committee that meets regularly. It would be best to give this priority and to move deliberately through the process without rushing and with sufficient administrative support.

## Maintenance, Warehouse, and Facilities

The district recently eliminated the position of director of maintenance, operations, transportation, and facilities (MOTF). These departments now report to the chief business official. The district has also contracted with a facilities consultant through the San Diego County Office of Education.

In interviews, the district's lead maintenance personnel exhibited an exceptional depth of knowledge and sense of personal responsibility for the performance of their jobs. One senior individual reported having an engineering degree and exhibited good working knowledge of building trades. Another individual was knowledgeable about required annual pesticide and chemical training, and one reported taking personal vacation time to attend a trade convention at his own expense to become better informed about current industry practices and equipment, because the district would not pay for such training. In addition, maintenance personnel expressed a need for safety and other training, and stated that they were not involved in bids. Some larger issues and tasks may exceed these lead staff members' abilities and may require the knowledge and experience of a director.

The warehouse distribution associate indicated that since the MOTF director left, direction has been received from either the lead maintenance worker or the chief business official. The district needs to clarify who is the direct supervisor of this position. Warehouse personnel reported that inventory is done once per year, that there have been no thefts, and that warehouse drivers are being trained on PeopleSoft software to help record items. Cross training such as this is usually beneficial. However, multiple staff are now sharing individual PeopleSoft accounts; it is best practice to issue each user a separate account and password to ensure proper accountability.

In interviews, some individuals indicated that facilities functions have been severely neglected. The individual in the facilities administrative secretary II position, who was assigned to the prior MOTF director, reported that she had no involvement with new construction or modernization; rather, she worked on maintenance, operations, and transportation. Individuals also report that the former superintendent and deputy superintendent made decisions about landscape design and other issues, bypassing the director of MOTF. The contracted facilities consultant from the San Diego County Office of Education reported that the facilities department has severe deficiencies in its structure and systems, bond accounting, facilities contracting, work flow process documentation, and recordkeeping.

The district's former assistant superintendent of business reported that she did not have directors who reported to her for many business functions, and therefore had to perform the work that otherwise would have been the responsibility of the directors. As a result, she stated she was barely able to keep up with the duties and responsibilities of the position. The district has not replaced its director of purchasing since 2008, and its controller position has not been filled since the last controller resigned in April 2018.

The district has a history of not replacing business and operations department heads, and of overworking its chief business official by assigning departmental work to that person. The current repetition of this pattern places the district at risk. A chief business official may not have the in-depth background needed to provide the detailed direction required by various departments. A chief business official cannot effectively directly supervise the personnel in multiple departments while properly managing the district's business affairs. The district has acted prudently in contracting with the county office of education for the services of a facilities consultant. The district should also consider employing a maintenance, operations, and transportation (MOT) director or manager. Knowledgeable management personnel and effective management can help ensure that best business practices are implemented and that district policies are followed. Conversely, insufficient management can increase the risk of fraud, theft, or mismanagement of the district's resources.

# Internal Controls

## Operational Policies and Procedures

Board policies and administrative regulations are based on laws and regulations in numerous documents, including the California Constitution, Education Code, Code of Regulations, Government Code, federal regulations, case law, and industry practice. Board policies and regulations provide guidelines and directives for district operation and are a key component of internal controls. It is important to ensure that board policies are updated to reflect changes in legislation. When adopting board policy, a district should carefully consider the specific guidelines that promote behavior that secures district assets from misuse or fraud. As a part of this review, FCMAT requested copies of the district's board policies and administrative regulations.

### Debt Issuance

FCMAT found no evidence that the district has had a policy to govern its 16 debt issuances in the past 21 years. The district adopted Board Policy 3470, Debt Issuance Management, on May 30, 2017. This policy should have governed its 2017 issuance of COPs. However, the policy is severely deficient in that it fails to assign responsibly for determining affordability or making timely debt service payments. In the section of the policy titled "Goals," the district identified 10 items required when issuing debt; one of the items states that the debt:

9. Preserves the availability of the district's general fund for operating purposes and other purposes that are not funded by the issuance of voter-approved debt.

Yet, as discussed earlier in the report, for the COPs issued in August 2017, three months after this policy was approved, the district proceeded with financing but did not demonstrate a sufficient amount of repayment from other financing means and will therefore need to use money from its general fund in the future to repay this debt.

In addition, Education Code Section 17150.1(a) states:

> No later than 30 days before the approval by the governing board of the school district to proceed with the issuance of certificates of participation and other debt instruments that are secured by real property and do not require approval of the voters of the school district, the school district shall notify the county superintendent of schools and the county auditor. The superintendent of the school district shall provide information necessary to assess the anticipated effect of the debt issuance, including the repayment schedules for that debt obligation, evidence of the ability of the school district to repay that obligation, and the issuance costs, to the county auditor, the county superintendent, the governing board, and the public. Within 15 days of the receipt of the information, the county superintendent of schools and the county auditor may comment publicly to the governing board of the school district regarding the capability of the school district to repay that debt obligation.

As discussed earlier in this report, the district did not submit the proper paperwork to the county office of education and therefore did not receive the benefit of public comment, which could have helped its governing board understand the proposed financing.

In interviews with numerous individuals and a review of documents and activities, FCMAT identified actions and characteristics that are indicative of a lack of adherence to professional standards and a lack of formal processes and procedures. Specific areas in which these deficiencies were apparent are summarized below.

## Vendor Payments

The district's Board Policy (BP) 3314 states:

> The Superintendent or designee shall…ensure that warrants have appropriate documentary support verifying that all goods and services to be paid for have been delivered or rendered in accordance with the purchase agreement.

District personnel responsible for confirming delivery or receipt of goods or services have not done so routinely and have not properly documented the receipt. In addition, district personnel failed to routinely confirm that services received matched the board-approved contract requirements, and that contracting was done in accordance with board-approved parameters.

## Bid and RFP Processes

District personnel did not have a clear understanding of who was responsible for bidding. Most staff were under the impression that the buyer position was responsible for bidding, yet the buyer stated that the former purchasing director handled all the bidding, and that since that person left bids have been done through the North County Purchasing Consortium, which is the local joint powers authority (JPA). The new CBO confirmed that vendors go through the North County Purchasing Consortium. However, the recent bid for installation of portables was done by the former interim CBO.

The district's Board Policy 3311 relates to bids and states the following:

> The Superintendent or designee shall establish comprehensive bidding procedures for the district in accordance with law.

The district's Administrative Regulation 3311 reinforces Board Policy 3311 with further detail and direction on the requirements and process for competitive bidding. The district should determine its bidding practices and procedures and then communicate these procedures to all departments.

The district's Board Policy 7140 states:

> The Superintendent or designee shall devise a competitive process for the selection of architects and structural engineers.

The district's Administrative Regulation 7140 further requires that "contractors for any architectural, landscape architectural, engineering, environmental, land surveying or construction project management services" are to be selected as required by Government Code 4526.

FCMAT reviewed RFPs and contracts for the services in the administrative regulations above.

As discussed earlier in this report, the district did not use the RFP process in a number of cases for which it was required. This shows that the district either does not have or does not follow established procedures to ensure that it uses best practices and follows board policy, administrative regulations and other government codes as legally required.

## Recordkeeping

The district does not maintain complete facilities and procurement files and/or cannot locate documents and records. The district should develop document file checklists for each type of procurement method. It is essential to the improvement of internal control that the district establish and communicate recordkeeping procedures for facilities projects and accounts payable payment files for facilities bids, RFPs and contracts.

A weakness in or lack of internal control elements has resulted in a high risk for fraud and misuse of district assets. FCMAT found material weaknesses in the district's internal control system. Weaknesses in each component of internal control were evident including lack of the following:

- Moral tone
- Board policy and administrative regulation
- Operational procedures related to the management and oversight of business processes
- Oversight or monitoring of internal controls

## Ethical Values and Fiduciary Duties

A fiduciary duty is the highest standard of care. The person who has a fiduciary duty is called the fiduciary, and the person to whom he or she owes the duty is typically referred to as the principal or the beneficiary (https://www.law.cornell.edu/wex/fiduciary_duty).

A fiduciary also may be a person who holds a legal or ethical relationship of trust with one or more other parties and who is responsible for taking care of money or other assets that belong to the other party or parties. District board members, administrators and management all have fiduciary duties. The Cornell Legal Information Institute linked to above also describes several components of fiduciary duties, which FCMAT summarizes and applies to districts as follows:

Duty of Care: Before making a decision, perform due diligence by collecting and reviewing all evidence and information available. Do not simply accept the information as it is presented. Assess information critically and ask who?, what?, when?, and where? A fiduciary's responsibility is to protect the assets of the district.

Duty of Loyalty: Do not use your position in the organization to further your private interests. Avoid anything that might injure the district.

Duty of Good Faith: Advance the interests of the district. Do not violate the law. Fulfill your duties and responsibilities.

Duty of Confidentiality: Keep confidential matters confidential; never disclose confidential information. Avoid personal liability.

Duty of Prudence: Be trustworthy, using a degree of care and skill that a prudent board member, member of management, or fiduciary would exercise. Prudence means acting with wisdom and care, including exercising good judgment.

Duty of Disclosure: Act with complete candor. Be open, sincere, honest and transparent. Disclose all financial interests on Form 700, Statement of Economic Interests.

A strong system of internal control is among the most important aspects of any fraud prevention program. Superintendents, CBOs and other senior administrators are in positions of authority and therefore are responsible for exercising a higher standard of care and for establishing a district's ethical tone and serving as examples to other employees. Employees with administrative responsibility have a fiduciary duty to the district to ensure that activities are conducted in compliance with all applicable board policies, laws, and regulations.

The control environment is an essential component of internal control. It includes the ethical tone and example set by management, and it results in a workplace where employees feel safe expressing concerns. Based on interviews and documentation reviewed, such an environment was not present in the district.

The district's Board Policy 3400 states that the board recognizes its fiduciary responsibility to effectively manage and safeguard the district's assets and resources, and that it relies on the superintendent or superintendent's designee to ensure that internal controls help prevent and detect fraud, financial impropriety or irregularities in the district.

Most people in an organization are responsible for internal controls in some capacity because almost everyone either produces information used by the internal control system or is responsible for taking actions to implement internal controls. School administrators, governing board members, and auditors have additional responsibility to ensure that an organization's internal controls are effective.

The governing board is intended to work as a group to provide governance, guidance and oversight. Individual board members can improve the control environment when they are inquisitive, free from bias, informed, and conduct themselves in an ethical manner.

Board members, management and employees with oversight and administrative responsibility have a fiduciary duty to ensure that activities are conducted in compliance with all applicable board policies, laws, regulations, and standards of conduct. Because internal controls include policies, procedures, and checks and balances, if those entrusted to set the oversight and ethical tone fail, the entire organization may be compromised.

The board has a fiduciary duty to protect taxpayer interests and ensure that the district generates maximum value from its available resources to carry out its educational mission.

As discussed earlier in this report, the district has the highest bond tax rates in the county, has the highest repayment ratios on all of its borrowing (GO bonds and COPs), has failed to generate maximum proceeds from financing transactions, and has a level of indebtedness that places its general fund at risk. The lack of evidence of due diligence on the part of the district (e.g., the failure to verify information and to identify risks) implies that business decisions were made without an appropriate level of understanding or a holistic strategy. These factors together indicate that the district's leaders have not fulfilled their fiduciary duties.

# Failure of Board Policy, and Organizationwide Deficiency of Care

Comments made by multiple individuals during interviews portrayed the district's culture as one in which employees have become accustomed to complying with whatever direction is provided and not asking questions. Among long-term staff, there was little evidence of any knowledge of due diligence or checks and balances. With the exception of the M&O supervisors cited above, there were no examples of instances in which individuals took initiative or assumed personal responsibility when following up on procedural questions concerning the propriety or impropriety of what they were directed to do. Numerous individuals indicated that checking on particular items was probably someone else's responsibility, or that they assumed that checking had been done already by someone else.

As indicated in the Maintenance, Warehouse and Facilities section of this report above, the district's former assistant superintendent of business services, who was at the district from July 2010 through August 2015, was overworked because the district did not have employees in many of its director positions, including purchasing, accounting, food service, and eventually MOTF. As a result, this individual reportedly had to do much of the work that these directors normally would have performed. If her account is accurate, she was of necessity working more as a manager or director than fulfilling the typical responsibilities of an assistant superintendent. Based on FCMAT's experience, districts of comparable size to the San Ysidro Elementary School District often have one director-level position in the business office, one in MOT, and one in food service. It would benefit the district to complete a staffing comparison of similar districts.

The former assistant superintendent also indicated that she did not work with or collaborate with the financial advisors and bond consultants concerning bond financing and restructuring, other than to provide data as requested. However, she wrote a highly detailed and complimentary letter of recommendation for the Dolinka Group, a firm that provided financial advisory services regarding bonds. This letter referenced how wonderful her interaction with Dolinka staff had been. It is difficult to understand why the former assistant superintendent would write such a letter if she did not have direct personal knowledge of the firm's work and direct interaction with the firm's staff. When interviewed, the former assistant superintendent indicated that the letter was simply a professional courtesy and its only purpose was to verify that the firm provided services to the district and that the services were satisfactory.

However, because the text of the letter contains significantly more detail than her statement, the former assistant superintendent's role appears to have been more involved. The letter references facilitation of general obligation bond and COP issuances, credit rating increase, a California Department of Education waiver, and other technical services provided by Dolinka, and the benefits of such services. These details imply personal knowledge of these finance issues. The letter also states that the former assistant superintendent was responsible for "assembling the team" to provide facilities program assistance. In addition, the former assistant superintendent was listed as the contact person for RFPs issued for facilities work in 2012, and the Dolinka Group was the consultant responsible for conducting the RFPs. The former assistant superintendent either had a greater role in interacting with bond consultants than the statements made in her interview indicate, or she signed a letter that included statements about which she had little or no personal knowledge. Either possibility indicates there was insufficient oversight of district business operations.

The former assistant superintendent did corroborate what multiple other individuals had stated about the district's culture being one in which employees received and implemented directions without questioning, and she commented that people who are still at the district and do not have other employment options "just keep their heads down to keep their jobs."

District personnel interviewed stated that they learned their jobs mostly by doing them and that they have been provided with little or no training. A few individuals had received some training from their predecessors.

When asked, almost every person interviewed responded that they needed and wanted training. One employee, who is responsible for reviewing contracts, was asked how they would know if a contract was good or bad and whether it was under the required bid limit threshold. The response was that someone would have to inform them; they would not be able to discern this on their own.

Similarly, another employee, who is responsible for processing purchase orders, stated that they have been provided with no training or professional development and that the director who used to supervise them has not been replaced. This individual has to direct any purchasing questions to financial personnel: either the controller (who was recently placed on leave) or the CBO (who was recently hired).

Another employee was asked if an item was questioned before it was processed. The answer given was that there were concerns but that the person assumed it was someone else's responsibility to question the item. Only one employee mentioned that if they had questions or concerns about an answer or directive they would request the direction in writing.

The district's administrative culture seems to be one that prioritizes processing of paperwork, compartmentalizes duties, expects little knowledge of legal requirements and industry best practices, and does not foster a sense of individual responsibility for checks and balances in job duties.

The district's superintendent and governing board need to work to create a culture of openness that fosters and expects proper business procedures. The district office has experienced a great deal of turnover in its leadership in the past decade, including three business office directors, an interim CBO, and six interim superintendents. This has had a significant impact on the employees' working environments and revealed the need for cross training, desk procedure manuals, and department policies and procedures manuals.

# Political Reform Act — Disclosure, Conflicts of Interest, and Enforcement

The Political Reform Act (PRA) was enacted by Proposition 9 in June 1974 and revised in 2015 with several significant changes to the conflict of interest rules, which became effective November 17, 2016.

The stated intent of the act was to establish a process and requirement for most state and local officials as well as certain designated employees to publicly disclose their personal income and assets as follows:

> § 81002. Purposes of Title(c) Assets and income of public officials which may be materially affected by their official actions should be disclosed and in appropriate circumstances the officials should be disqualified from acting in order that conflicts of interest may be avoided.
>
> Source: http://www.fppc.ca.gov/content/dam/fppc/NS-Documents/LegalDiv/The%20Political%20Reform%20Act/2018_Act_FINAL.pdf

The act's provisions are enforced by the Fair Political Practices Commission (FPPC) and supported by the Government Code. The act requires every state and local government agency to adopt a conflict of interest code. The FPPC is the state agency responsible for interpreting the provisions of the law and issuing California Form 700 – Statement of Economic Interests.

Because school district governing board members are considered public officials and governing boards are considered legislative bodies, board members and certain other designated individuals must file Form 700 annually, when they take office or begin in a position, and upon leaving office. Form 700 for a given calendar year must usually be filed by April 1 of the subsequent calendar year and within 30 days of assuming or leaving office or a position, unless an exception applies. In addition, the district's Board Bylaws 9000 Series document states on page 56 that a consultant to the organization "who makes, participates in making, or acts in a staff capacity for making governmental decisions" may be required to complete a Form 700.

The district's governing board originally adopted Board Bylaw 9270, Conflict of Interest, on October 19, 1987. This bylaw was subsequently updated in 2014 and 2015. The bylaw includes a comprehensive conflict of interest code that adopts the PRA and California Government Code and designates positions that must complete conflict of interest Form 700. The disclosure requirement is fulfilled through the annual submission of Form 700. Full disclosure using this form is required of the board, superintendent and chief business official; a lesser degree of disclosure is required of some other district administrators.

The district was able to demonstrate due diligence in complying with the conflict of interest code for all designated positions as outlined in its Board Bylaw 9270. However, for fiscal years 2012-13 through 2014-15 the district had statement of economic interest forms from various employees of its legal counsel, Artiano Shinoff & Holtz, and in fiscal year 2015-16 the disclosure forms for most of the same personnel showed that they were leaving office. As discussed earlier in the report, the district approved a contract with Leal and Trejo, PC as legal counsel in February 2015. Therefore, FCMAT expected to see disclosure forms for Leal and Trejo, PC's personnel when they began working on behalf of the district; however, FCMAT could find no records of such forms from this legal firm.

## Possible Conflicts of Interest

When faced with questions regarding possible conflicts of interest on the part of a public official such as a school board member, administrator or consultant, it is important to consider the legal and ethical standards and review applicable board policies that may be even more restrictive than the statutory mandates.

The board and management should demonstrate financial integrity, and regulation is extremely important. Corruption does not have to involve two or more parties; a single employee in a position of trust can exercise authority for his or her own personal gain. Every conflict of interest issue requires one party to be in a position of trust, and every instance of corruption requires both a conflict of interest and a breach of that trust.

FCMAT reviewed the district's Board Bylaw 9270, Conflict of Interest, and Board Policy 4119.21, Professional Standards, to evaluate board members, staff and consultants regarding conflict of interest issues.

Statutes that govern conflicts of interest include the Political Reform Act, Government Code 1090, Government Codes 87100, 87302, 87306, and 87500, Corporations Code Section 5233 for nonprofit organizations, and Education Code Section 35107(e). Government Code Section 1090 is an absolute prohibition against financial interests by board members, officers or employees in contracts "made by them in their official capacity, or by any body or board of which they are members" (GC 1090(a)). If an employee prepares or negotiates a contract or recommends its approval, this prohibition applies to him or her. The prohibition makes no exceptions, and if a conflict of interest exists, the contract is voidable and has no legal effect. It is not legally possible to abstain from a contract that violates 1090 unless the contract is a "remote interest" as defined under Government Code 1091 or a "non-interest" as defined under 1091.5.

As revised, Board Bylaw 9270 states:

> Governing Board members, candidates, and committees are prohibited from accepting gifts and contributions from any employee, agent, independent contractor, representative of any person or entity that is engaged in business with the San Ysidro School District at the time the contribution is made.

Multiple individuals interviewed stated that at least one vendor and individuals associated with at least one vendor engaged in business with the district provided funding for the election campaigns of the individuals who shortly afterward became the district's board vice president and board clerk. The allegations were that the funds were provided directly to or through indirect influence on the San Ysidro Education Association Political Action Committee (SYEA PAC).

FCMAT reviewed campaign finance disclosure documents and verified that the SYEA PAC provided approximately 70% - 80% of the total contributions to those two board member campaigns. However, FCMAT did not obtain any campaign finance disclosure documents that corroborate the allegations shared with the FCMAT study team. Furthermore, subsequent to the release of the first version of this report, FCMAT conducted additional work, including interviewing and receiving written communication from some involved parties who categorically deny the allegations. FCMAT does not accuse any vendor, individuals associated with vendors, SYEA or the board members of any wrongdoing with regard to any alleged contributions.

While there is no substantiation of the allegations made to FCMAT's study team, the topic of inappropriate influence and pay-to-play through financial contributions to political and local bond campaigns is a worthy topic for the district to be conscientious about in its purchasing policies and practices.

## Political Contributions

FCMAT reviewed campaign finance documents obtained from the County of San Diego for the prior five years, which included the 2014 and 2016 board member elections involving the following individuals:

Marcos Diaz — 2014 campaign

Luciana Corrales — 2014 campaign

Rodolfo Linares — 2014 campaign

Jason Wells — 2014 campaign

Steve Kinney — 2016 campaign

Irene Lopez — 2016 campaign

Antonio Martinez — 2016 campaign

Rosaleah Pallasigue — 2016 campaign

None of the district's vendors or individuals associated with vendors were identified as having made political contributions to candidates in any of the above elections.

In addition, FCMAT obtained campaign finance documents from the district for the election in which its Proposition C bond measure was approved by voters. Several firms that made political contributions at the time were identified as also having been the district's vendors. There is no legal prohibition against vendors making political contributions, though such contributions may be indicative of pay-to-play activity if the vendor is hired or retained as a result of their contribution. These firms and the amount of each firm's contribution are highlighted in the table below:

***Firms That Made Campaign Contributions***

| Name | Contribution |
|---|---|
| Pardee Construction Co. | $ 5,000.00 |
| Coup & Smith Architects | $ 2,000.00 |
| Miracle Play Systems | $ 1,500.00 |
| Puhnau Associates | $ 1,500.00 |
| Detel System Inc. | $ 1,000.00 |
| Kadie-Jensen, Johnson, & Bodnar | $ 1,000.00 |
| American Asphalt & Concrete, Inc. | $ 750.00 |
| T.M.P. Homes | $ 750.00 |
| S.D.C.G. Associates L.D. | $ 500.00 |
| Southland Geotechnical, Inc. | $ 500.00 |
| Wow Wee Impact Wear | $ 500.00 |
| Orrick, Herrington & Sutcliff | $ 250.00 |
| Brothers Market, Inc. | $ 200.00 |
| MCI Foods Inc. | $ 200.00 |
| Hollandia Dairy | $ 100.00 |
| San Diego Restaurant Supply | $ 100.00 |
| D. Sellers Associates | $ 50.00 |

Highlighted rows indicate firms that were the district's vendors.

# Conclusion

## Potential for Fraud

Based on the findings in this report, there is sufficient evidence to demonstrate that fraud, misappropriation of funds and/or assets, or other illegal fiscal activities may have occurred in the specific areas reviewed.

Deficiencies and exceptions noted during FCMAT's review of the district's financial records and internal control environment increase the probability of fraud, mismanagement and/or misappropriation of the district's assets. These findings should be of great concern to the San Ysidro Elementary School District and the San Diego County Office of Education and require immediate intervention to limit the risk of fraud, mismanagement and/or misappropriation of assets, or other illegal fiscal activities in the future.

## Judgments Regarding Guilt or Innocence

The existence of fraud, misappropriation of funds and/or assets, or other illegal fiscal activities is solely the purview of the courts and juries. FCMAT is not making statements that could be construed as a conclusion that fraud, misappropriation of funds and/or assets, or other illegal fiscal activities have occurred. These terms are a broad legal concept, and auditors do not make legal determinations regarding whether illegal activity has occurred.

In accordance with Education Code Section 42638(b), action by the county superintendent shall include the following:

> If the county superintendent determines that there is evidence that fraud or misappropriation of funds has occurred, the county superintendent shall notify the governing board of the school district, the State Controller, the Superintendent of Public Instruction, and the local district attorney.

In accordance with Education Code Section 1241.5(b), the county superintendent is required to report the findings and recommendations to the district's governing board at a regularly scheduled board meeting within 45 days of completing the audit. Within 15 days of receipt of the report, the governing board is required to notify the county superintendent of its proposed actions regarding the county superintendent's recommendations.

## Recommendation

*The county superintendent should:*

1. Notify the governing board of the San Ysidro Elementary School District, the State Controller, the Superintendent of Public Instruction and the local district attorney that sufficient evidence exists to indicate that fraud or misappropriation of district funds and/or assets, or other illegal fiscal activities, may have occurred.

# Appendices

# Appendix A

## District Superintendents' and Board Members' Dates of Service

### *Administrators*

| Position | Name | From | To |
|---|---|---|---|
| Superintendent | Manuel H. Paul | 11/9/2007 | 6/30/13* |
| Superintendent Designee | Gloria Madera | 1/17/2013 | 6/30/13 |
| Interim Superintendent | Gloria Madera | 7/1/13 | 3/31/14 |
| Interim Superintendent | George Cameron | 4/24/14 | 1/30/15 |
| Interim Superintendent | Edward Velasquez | 2/2/15 | 6/30/15 |
| Superintendent | Julio Fonseca | 7/1/15 | 9/1/17 |
| Interim Superintendent | Arturo Sanchez Macias | 9/1/17 | 11/3/17 |
| Interim Superintendent | Mary Willis | 11/9/17 | 11/6/17 |
| Interim Superintendent | Edward Velasquez | 3/12/18 | 4/12/18 |
| Superintendent | Gina A. Potter | 5I4/18 | Present |

*Official leave date

### *Board Members*

| Fiscal Year | Name | Notes |
|---|---|---|
| 2012-13 | Yolanda Hernandez | |
| | Jean A. Romero | |
| | Jason M-B Wells | |
| | Antonio Martinez | Assuming Office: 12/20/12 |
| | Jose F. Barajas | Assuming Office: 12/20/12 |
| | | |
| 2013-14 | Yolanda Hernandez | Resigned: 4/30/14 |
| | Jean A. Romero | Resigned: 4/1/14 |
| | Jason M-B Wells | |
| | Antonio Martinez | |
| | Jose F. Barajas | |
| | Luciana Corrales | Assuming Office: 6/26/14 |
| | | |
| 2014-15 | Jason M-B Wells | Leaving Office: 12/11/14 |
| | Antonio Martinez | |
| | Jose F. Barajas | |
| | Luciana Corrales | |
| | Marcos Diaz | Assuming Office: 12/11/14 |
| | Rodolfo Linares | Assuming Office: 12/11/14 |
| | | |
| 2015-16 | Antonio Martinez | |
| | Marcos Diaz | |
| | Rodolfo Linares | |

| Fiscal Year | Name | Notes |
|---|---|---|
| | Jose F. Barajas | Resigned: 8/1/15 |
| | Luciana Corrales | Resigned: 11/17/15 |
| | Steven Kinney | Assuming Office: 9/30/15 |
| | Rosaleah Pallasigue | Assuming Office: 12/10/15 |
| | | |
| 2016-17 | Antonio Martinez | |
| | Marcos Diaz | |
| | Rodolfo Linares | |
| | Rosaleah Pallasigue | |
| | Irene Lopez | Assuming Office: 12/14/16 |
| | Steven Kinney | Leaving Office: 12/14/16 |
| | | |
| 2017-18 | Antonio Martinez | |
| | Marcos Diaz | |
| | Rodolfo Linares | |
| | | |
| | | |
| | Rosaleah Pallasigue | |
| | Irene Lopez | |
| | | |
| 2018-19 | Antonio Martinez | |
| | Marcos Diaz | Leaving Office: 12/13/18 |
| | Rodolfo Linares | Leaving Office: 12/13/18 |
| | Rosaleah Pallasigue | |
| | Irene Lopez | |
| | Humberto Gurmilan | Assuming Office: 12/13/18 |
| | Rudy Lopez | Assuming Office: 12/13/18 |

# Appendix B

## Solar Project Timeline

**Oct 08 2008**
District and Manzana Energy (EcoBusiness Alliance) entered into a solar power and service agreement

**Oct 2011**
District terminated the contract with Manzana Energy

**Apr 2012**
Lawsuit filed by Manzana Energy against the SYSD for wrongful termination of their contract

**Feb 11 2014**
Judgement against the SYSD awarding Manzana Energy $12 M

**Dec 14 2014 - Dec 16 2014**
Board Vice-President and Clerk met new Interim Superintendent at CSBA Conference

**Jan 10 2015**
Following request of Board Vice-President and Clerk, Interim Superintendent at the time resigns at Special Board Meeting

**Jan 22 2015**
New Interim Superintendent Interviewed

**Jan 27 2015**
New Interim Superintendent hired during board meeting

**Feb 02 2015**
New Interim Superintendent start date

**Feb 07 2015**
Partner at Law Firm Leal & Trejo hired, including for purpose of reinstatement of Manzana Energy contract. Board Directed New Interim Superintendent to discuss a resolution with Manzana Energy

**Feb 12 2015**
Managing Director at RBC Capital Markets presents on bonds

**Feb 28 2015**
MOU with Manzana Energy on board agenda but tabled to a future meeting

**Mar 12 2015**
Special board meeting (prior to regular board meeting closed session) to discuss holding a public hearing and discuss reinstatement of contract and addendum, but appears tabled to a future meeting

**Mar 26 2015**
Public hearing and reinstatement of contract and addendum on agenda, but tabled to a future meeting

**Apr 09 2015**
Special board meeting where board approves reinstatement of contract and addendum

**Jul 15 2015**
Settlement and mutual release entered into, reducing settlement amount to $1.6 M

**Jul 17 2015**
District incurs promissory note for $1.6 M payable to Manzana Energy within 5 years at 5% interest

**Nov 12 2015**
District adopts resolution No. 15/16-3125 for a one-time $600,000 payment to Manzana Energy to fully satisfy the promissory note

# Appendix C

## Study Agreement

FCMAT
FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM
CSIS California School Information Services

**FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM**
**AB139 STUDY AGREEMENT**
**April 11, 2018**

The Fiscal Crisis and Management Assistance Team (FCMAT), hereinafter referred to as the team, and the San Diego County Superintendent of Schools, on behalf of the San Diego County Office of Education hereinafter referred to as the COE, mutually agree as follows:

**1. BASIS OF AGREEMENT**

The team provides a variety of services to local educational agencies (LEAs). Pursuant to the provisions of Education Code (EC) Section 1241.5 (b), a county superintendent of schools may review or audit the expenditures and internal controls of any school in his or her county if he or she has reason to believe that fraud, misappropriation of funds, or other illegal fiscal practices have occurred that merit examination. The extraordinary audits conducted by the county superintendent shall be focused on the alleged fraud, misappropriation of funds, or other illegal fiscal practices and shall be conducted in a timely and efficient manner.

All work shall be performed in accordance with the terms and conditions of this agreement.

**2. SCOPE OF THE WORK**

A. Scope and Objectives of the Study

The COE has requested FCMAT to assign professionals to conduct an AB 139 Extraordinary Audit pursuant to Education Code Section 1241.5 (b). The COE has received allegations of possible fraud, misappropriation of funds or other illegal practices at the San Ysidro School District and is requesting that FCMAT review transactions and relevant internal controls related to procurement activities and contractual commitments for facilities modernization and/or new construction projects.

The primary focus of this review is to determine, based on the testing performed, whether (1) the district has adequate management and internal controls for the procurement activities and contractual commitments related to its facilities construction projects, and (2) based on that assessment, whether fraud, misappropriation of funds or other illegal fiscal practices may have occurred.

Management controls include the processes for planning, organizing, directing, and controlling program operations. Specific audit objectives will include evaluating the establishment, implementation and effectiveness of policies,

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procedures and internal control activities regarding procurement activities and contractual commitments for facilities maintenance and/or construction projects. FCMAT's review will focus on the following:

1. Project scope, authorization, project delivery method and procurement practices
2. Bid processes including contractor and subcontractor selection and subsequent school board approval
3. Method and application of contractor payments including internal auditing and school board approval

The team will:

1. Evaluate policies, procedures and internal controls for purchasing, contractual commitments, and vendor payments. Sample selections will include, but not be limited to, documents related to the bond program and construction management contracts.
2. Review sample selections of vendor payments and supporting documentation and verify compliance with established policy, procedures and applicable laws.
3. Review the source and use of bond proceeds and transactions, including any other debt instruments, and support documentation related to the source and use of these funds as considered necessary.
4. Determine if any of the San Ysidro School District local public officials, designated employees or "consultants to the organization who makes, participates in making, or acts in a staff capacity for making governmental decisions" as defined in the Political Reform Act (PRA) of 1974 (Government Code Sections 8100 – 91014) violated any conflict of interest disclosure regarding California conflict-of-interest laws. Review applicable PRA Form 700 filings for 2012-13 through 2017-18.

The team will review and test recorded transactions for fiscal years 2012-13 through 2017-18 to date, to determine if fraud, misappropriation of funds or other illegal activities may have occurred. Testing for this review will be based on a sample of transactions and records for this period. Testing and review results are intended to provide reasonable but not absolute assurance regarding the accuracy of the district's financial transactions and activity to accomplish the following:

1. Provide reasonable assurance to management that the internal control system is established, implemented and monitored.
2. Prevent internal control activities from being overridden by management.
3. Help identify and correct inefficient processes.
4. Ensure that employees are aware of the proper internal control expectations.

B. <u>Services and Products to be Provided</u>

1. Orientation Meeting - The team will conduct an orientation session at the district to brief management and supervisory personnel on the team's procedures and the purpose and schedule of the study.

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2. On-site Review - The team will conduct an on-site review at the district office and at school sites if necessary; and will continue to review pertinent documents off-site.

3. Progress Reports - The team will inform the COE of material issues as the review is performed.

4. Exit Meeting – The team will hold an exit meeting at the conclusion of the on-site review to inform the COE of any significant findings to that point.

5. Draft Report – When appropriate, electronic copies of a preliminary draft report will be delivered to the COE's administration for review and comment on a schedule determined by the team.

6. Final Report - Electronic copies of the final report will be delivered to the COE and/or district following completion of the review. Printed copies are available from the FCMAT office upon request.

7. Follow-Up Support – If requested, the team will meet with the COE and/or district to discuss the findings and recommendations of the report.

3. **PROJECT PERSONNEL**

The FCMAT study team may also include:

| | | |
|---|---|---|
| ***A.*** | ***To Be Determined*** | ***FCMAT Staff*** |
| ***B.*** | ***To Be Determined*** | ***FCMAT Consultant*** |

Other equally qualified staff or consultants will be substituted in the event one of the above individuals is unable to participate in the study.

4. **PROJECT COSTS**

The cost for studies requested pursuant to EC 42127.8 (d) (1) shall be:

A. $1100 per day for each staff team member while on site, conducting fieldwork at other locations, presenting reports, or participating in meetings. The cost of independent FCMAT consultants will be billed at their actual daily rate for all work performed.

B. All out-of-pocket expenses, including travel, meals and lodging.

**Based on the elements noted in Section 2A, the total estimated cost of the study will be $42,200.**

C. Any change to the scope will affect the estimate of total cost.

Payments for FCMAT services may be reimbursed from funds pursuant to EC 1241.5 set aside for this purpose. Other payments, when deemed necessary, are payable to Kern County Superintendent of Schools - Administrative Agent, located at 1300 17th Street, City Centre, Bakersfield, CA 93301.

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5. **RESPONSIBILITIES OF THE COE AND/OR DISTRICT**

A. The district will provide office and conference room space during on-site reviews.

B. The district will provide the following if requested:

1. Policies, regulations and prior reports addressing the study request
2. Current or proposed organizational charts
3. Current and two prior years' audit reports
4. Any documents requested on a supplemental list. Documents requested on the supplemental list should be provided to FCMAT only in electronic format; if only hard copies are available, they should be scanned by the district and sent to FCMAT in an electronic format
5. Documents should be provided in advance of fieldwork; any delay in the receipt of the requested documents may affect the start date and/or completion date of the project. Upon approval of the signed study agreement, access will be provided to FCMAT's online SharePoint document repository where the district shall upload all requested documents.

C. The COE and/or district's administration will review a preliminary draft copy of the study. Any comments regarding the accuracy of the data presented in the report or the practicability of the recommendations will be reviewed with the team prior to completion of the final report.

Pursuant to EC 45125.1(c), representatives of FCMAT will have limited contact with pupils. The district shall take appropriate steps to comply with EC 45125.1(c).

6. **PROJECT SCHEDULE**

The following schedule outlines the planned completion dates for different phases of the study and will be established upon the receipt of a signed study agreement:

| | |
|---|---|
| ***Orientation:*** | ***To be determined*** |
| ***Staff Interviews:*** | ***To be determined*** |
| ***Exit Meeting:*** | ***To be determined*** |
| ***Preliminary Report Submitted*** | ***To be determined*** |
| ***Final Report Submitted*** | ***To be determined*** |

7. **COMMENCEMENT, TERMINATION AND COMPLETION OF WORK**

FCMAT will begin work as soon as it has assembled an available and appropriate study team consisting of FCMAT staff and independent consultants, taking into consideration other jobs FCMAT has previously undertaken and assignments from the state. The team will work expeditiously to complete its work and deliver its report, subject to the cooperation of the district and any other parties from which, in the team's judgment, it must obtain information. Once the team has completed its fieldwork, it will proceed to prepare a preliminary draft report and a final report. Prior to completion of fieldwork, the COE may terminate its request for service and will be responsible for all costs incurred by FCMAT to the date of termination under Section 4 (Project Costs). If the COE does

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not provide written notice of termination prior to completion of fieldwork, the team will complete its work and deliver its report and the COE will be responsible for the full costs. The COE understands and agrees that FCMAT is a state agency and all FCMAT reports are published on the FCMAT website and made available to interested parties in state government. In the absence of extraordinary circumstances, FCMAT will not withhold preparation, publication and distribution of a report once fieldwork has been completed, and the COE shall not request that it do so.

8. **INDEPENDENT CONTRACTOR**

FCMAT is an independent contractor and is not an employee or engaged in any manner with the COE. The manner in which FCMAT's services are rendered shall be within its sole control and discretion. FCMAT representatives are not authorized to speak for, represent, or obligate the COE in any manner without prior express written authorization from an officer of the COE.

9. **INSURANCE**

During the term of this agreement, FCMAT shall maintain liability insurance of not less than $1 million unless otherwise agreed upon in writing by the COE, automobile liability insurance in the amount required under California state law, and workers compensation as required under California state law. FCMAT shall provide certificates of insurance, with San Diego County Office of Education named as additional insured, indicating applicable insurance coverages upon request.

10. **HOLD HARMLESS**

FCMAT shall hold the COE, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement. Conversely, the district shall hold FCMAT, its board, officers, agents and employees harmless from all suits, claims and liabilities resulting from negligent acts or omissions of its board, officers, agents and employees undertaken under this agreement.

11. **CONTACT PERSON**

Contact: Brent Watson,
Telephone: (858) 292-3537
E-mail Address: brwatson@sdcoe.net

4/11/18

~~Paul Gothold, Superintendent~~ Michael Simonson Asst. Supt. Date
San Diego County Office of Education

April 11, 2018

Michael H. Fine Date
Chief Executive Officer
Fiscal Crisis & Management Assistance Team

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