



Independent Auditor's Report on Compliance

June 30, 2020

**San Francisco Unified School District
Public Education Enrichment Fund**



The Board of Education, PEEF Citizens' Advisory Committee, and Management of
San Francisco Unified School District
San Francisco, California

Subject: Public Education Enrichment Fund Audit Report for the three fiscal years ending June 30, 2020.

This report presents the results of our compliance audit of the San Francisco Unified School District's (SFUSD or the District) Public Education Enrichment Fund (PEEF) compliance audit.

Background Information

In March 2004, San Francisco voters approved Proposition H, which established the Public Education Enrichment Fund (PEEF) as law within the Charter of the City and County of San Francisco (City). Among other things, PEEF provides funding to the San Francisco Unified School District (District) through annual contributions from the City's budget. On November 4, 2014, Proposition C, the "Children and Families First" initiative, was passed by a majority of voters, which extended many provisions of Proposition H through the fiscal year ending June 30, 2041.

The District's PEEF allocation is split 50/50 between two broad categories of allowable activities: Sports, Libraries, the Arts, and Music (SLAM), and Other General Uses (OGU) that promote general education purposes. Funding decisions are made through an annual PEEF expenditure plan that is prepared in collaboration with the Management of the District and the PEEF Citizens' Advisory Committee. The spending plan requires the approval of the District's Board of Education before it may be enacted.

A summary of PEEF revenues and expenditures for the fiscal year is shown in the following table:

	Fiscal year end June 30, 2020
Revenues	\$ 92,422,668
Expenditures	\$ 90,963,305

Executive Summary

Professional audit standards require that we plan and perform the audit to obtain reasonable assurance about whether the District has complied with the compliance requirements of the Public Education Enrichment Fund. Our audit procedures consisted of interviews with District management, and reviews of documentation and accounting records to gather evidence about the District's compliance with PEEF. The compliance audit objectives, scope, methodology, audit results, and a summary of the views of responsible district officials are included in the report body.

Our audit procedures covered the fiscal year ending June 30, 2020. The evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Project kick-off, planning meetings, and interviews with Management were conducted during February and March 2021. Evidence was gathered through the end of April 2021. We conclude that for the fiscal year ended June 30, 2020 PEEF funds were used only for allowable activities and costs as listed under the Board of Education approved Spending Plan, with the following exceptions and clarifications:

- The dollar amount of transfers from PEEF Other General Uses (OGU) accounts to District operating reserve accounts could not always be matched to the Board approved spending plan.
- A policy about administrative costs is not meaningfully implemented and cannot be objectively measured. Furthermore, there is not a separate tracking of administrative expenses from direct student support.
- Although we found no evidence that expenditures were for other than District purposes, we could not always draw a clear nexus between the Board approved spending plan and actual expenditures.

We provided improvement recommendations related to our observations and which are described in our report.

Management remains responsible for compliance and the proper implementation and operation of an adequate system of internal control. Due to the inherent limitations of any internal control structure, errors, or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

This report is intended solely for the use of the Board of Education, Management, and the PEEF Citizens' Advisory Committee. This report is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Menlo Park, California
November 3, 2021

San Francisco Unified School District
Public Education Enrichment Fund Compliance Audit
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Independent Auditor's Report on Compliance

Board of Education and
PEEF Community Advisory Council
San Francisco Unified School District

We have audited San Francisco Unified School District's compliance with the requirements described on November 4, 2014, Proposition C Public Education Enrichment Fund (PEEF) for the year ended June 30, 2020.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the San Francisco Unified School District's Management.

Auditor's Responsibility

Our responsibility is to express an opinion on the San Francisco Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the San Francisco Unified School District has complied with the compliance requirements as specified in the Public Education Enrichment Fund. An audit includes examining, on a test basis, evidence about the San Francisco Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the San Francisco Unified School District's compliance with those requirements.

Opinion

In our opinion, San Francisco Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the Public Education Enrichment Fund for the years ended June 30, 2020.

Internal Control Over Compliance

Management of San Francisco Unified School District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered San Francisco Unified School District's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the San Francisco Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow Management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Other Matters

Other information

Our audit was conducted for the purpose of determining if the District complied with the PEEF compliance requirements. The balance sheet and the statement of revenues, expenses and changes in fund balance on pages 10 and 11 are presented for purposes of additional analysis. The balance sheet and the statement of revenues, expenses and changes in fund balance have not been subjected to the auditing procedures applied in the PEEF compliance audit, and accordingly, we do not express an opinion or provide any assurance on them.

The District's Responses to our Compliance Audit Outcomes

The District's responses to the compliance audit outcomes identified in our audit are described in the Views of Responsible District Officials section. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Menlo Park, California
November 3, 2021

The primary objective of our compliance audit included verification of Management's compliance with the November 4, 2014, Proposition C, as applicable to the San Francisco Unified School District. Proposition C requires that expenditures of PEEF are authorized by the Board Approved Spending Plan.

We conducted our audit of compliance following auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about the District's compliance with PEEF. An audit includes examining, on a test basis, evidence about the District's compliance with the PEEF and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements. Our compliance audit procedures covered the fiscal years ending June 30, 2020.

Management is still responsible for the proper implementation and operation of an adequate internal control system. Due to the inherent limitations of any internal control structure, errors, or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

This compliance audit did not constitute an audit of financial statements per *Government Auditing Standards*. Eide Bailly was not engaged to and did not render an opinion on District internal controls. The November 4, 2014, Proposition C also includes compliance requirements applicable to entities other than the San Francisco Unified School District. Eide Bailly was not engaged to and did not render an opinion on compliance for any other entity. All of the compliance procedures were applied separately for each fiscal year. The complete listing of compliance audit objectives, methodology, and results include the following:

Compliance Audit Outcome Number 1 — Administrative Costs

A policy about administrative costs is not meaningfully implemented and cannot be objectively measured. Furthermore, there is not a separate tracking of administrative costs from direct student support. We interviewed Management about the District's administrative costs policy, including how the District determines the nature, amount, and allowability of funding the costs of administrating PEEF. The District strives to follow the *Direct Service and Administrative Cost Guidance* published by the California Department of Education (CDE Guidance). In our opinion, following the CDE Guidance is a good best practice, although the publication is written for specific State grants. Furthermore, there is not a separate accounting of PEEF administrative costs from direct costs, so we cannot objectively measure compliance or conclude if the CDE Guidance is meaningfully implemented.

Recommendation for improvement — To ensure objectivity and consistency, there should be a formal policy about administrative and indirect costs of PEEF. CDE Guidance provides definitions and examples of direct services, administrative costs, and indirect costs. We recommend PEEF management to work with legal counsel and fiscal personnel to tailor the CDE Guidance and formalize it as a District policy.

The proposed budget should separately report the nature and amount of PEEF “administrative expenditures” and “direct services expenditures” to help key decision-makers with their duties. The accounting records should also allow for the separate identification of administration costs for transparency and audit support. To that end, the District should use an administrative site code, cost center, or equivalent to separately track and report costs of administering PEEF.

Compliance Audit Outcome Number 2 — Allowable Activities and Costs

Subject to the following clarifications, the District expended PEEF resources only for uses allowable per the Board approved Spending Plan. Enabling legislation allows the District to spend funds for any activity within its jurisdiction, subject to the approved spending plan.

We performed an analytical analysis of the entire population of expenditures to identify activities and costs that appear outside the scope of PEEF or the Board approved Spending Plan. We further selected a representative random sample of transactions drawn from the complete expenditure records of PEEF. Finally, we reviewed 109 items of expenditures aggregating \$11.7 million, and an additional \$16.9 million of related employee benefits expense. For each sampled item, we reviewed source documents such as payroll records and invoices to confirm that expenditures of PEEF are for activities and costs authorized by the Board approved Spending Plans.

Although we found no evidence that expenditures were for other than District purposes, we could not draw a clear nexus between an expenditure of \$625,650 by the Athletics Department for turf replacement and the Board approved spending plan. The description approved within the spending plan allows “Athletic Equipment/Maintenance/Repairs - scoreboards, wrestling/cheer mats, and other athletic equipment and athletic office equipment, supplies, and expenses.”

Recommendation for improvement — We recommend that future PEEF spending plans avoid vague descriptions.

Compliance Audit Outcome Number 3 — Budgetary Compliance

The PEEF transfers to the General Fund exceed the amounts allowable per the Board Approved Spending Plan. Enabling legislation allows the District to expend funds for any activity within its jurisdiction, subject to the approved spending plan. It is not clear about if transfers to the general fund of the District are explicitly allowable per the spending plan because authorized and actual amounts are different.

The transfers are not an issue per se, because PEEF is explicit that the District may use PEEF funding for “any educational or support purpose” within its jurisdiction. However, the Board Approved Spending Plan is the enabling document about the usage of PEEF funds. Therefore, we expect to see the transfers called out in that plan for the dollar amounts observed in the accounting records. This matter is further summarized in the following tables:

<u>Reference</u>	<u>Amount</u>
A	\$ 3,700,000
B	10,500,000
C	<u>2,147,908</u>
	<u><u>\$ 16,347,908</u></u>

<u>Ref.</u>	<u>Description</u>	<u>Audit Outcome</u>
A	The 2019-20 site plan on page 36 reads that "It is recommended that \$1,700,000 be held in reserve due to an ongoing need to support baseline school site budgets. Reserve Funds are allocated to support the Weighted Student Formula which provides for basic needs to school sites such as classroom teachers, school administration, and instructional materials."	Although the use of funds is otherwise permissible, the audit exception is about the authority to exceed the budget. The amount expended is 118% higher than the budgeted amount of \$1.7 million.
B	Other General Uses (OGU)	Although the use of funds is otherwise permissible, this specific transfer was not noted within the Board approved spending plan.
C	The Opportunity Gap Resolution (Resolution No. 194-23A1) states that the District recommended "to increase supports to schools for these students, and possibly others, in School Year 2019-20 using unspent Public Education Enrichment Fund balances of up to \$2.5 million."	No exception. The actual amount of the transfer was less than the amount approved by the Board.

Recommendation for improvement — We recommend the District to explicitly define the delegated authority of Management to revise the budget mid-year. We also recommend the District to explicitly specify the reporting requirements to the Board when such changes are made.

Compliance Audit Outcome Number 4 — Complete and Accurate Accounting Records

The PEEF accounting records are complete and accurate. We reviewed Management's process for the accumulation of complete and accurate accounting records. Within the District's general ledger, specific PEEF resource codes are used for separate accounting of PEEF revenues and expenditures from all other activity of the District. We reviewed the accounting records to verify that the unspent PEEF fund balance is correctly brought forward to the next fiscal year. We also confirmed that PEEF revenues are correctly deposited into the specific PEEF resource codes by reconciling the District's accounting records with evidence of cash receipts from the City. Finally, we reviewed 109 items of expenditures aggregating \$11.7 million, and an additional \$16.9 million of related employee benefits, and reviewed origination documentation such as payroll records and invoices, to ensure that only PEEF activities and costs are paid using PEEF resources.

Compliance Audit Outcome Number 5 — SLAM and OGU Allocation

The District correctly allocated PEEF revenues to SLAM and OGU. We reviewed Management's process to allocate PEEF revenue between the categories of SLAM and OGU. The District established a series of resource codes that are either SLAM or OGU funded for this purpose. To the extent that unspent revenue remains at the end of a fiscal year, the fund balance remains restricted for either SLAM or OGU activity in a future fiscal year. We also independently recalculated the initial allocation between SLAM and OGU, and the rollover of unspent PEEF revenue to the succeeding fiscal year.

Compliance Audit Outcome Number 6 — Charter School Allocation

The District's allocation of PEEF to charter schools is consistent and accurate. We interviewed Management and reviewed written policies about the methodology of providing charter schools with PEEF funding. Charter schools receive FTE and per-pupil allocations that are calculated by the District. We reviewed the calculations noting that they are consistently applied between schools and fiscal years.

Compliance Audit Outcome Number 7 — Charter School Oversight

The District retains all documentation evidencing review and approval of charter school reimbursements. The District's policy is to reimburse charter schools for incurred eligible expenses upon review and approval of supporting documentation by the District. The District retained documentation evidencing that all charter school reimbursements were reviewed and approved by the District. We reviewed a sample of three charter school reimbursements aggregating \$337.6 thousand, and the District provided a complete reimbursement packet for the charter schools selected.

District Response, Outcome Number 1 — Administrative Costs

The District agrees with the auditor's observation of Outcome Number 1 (on page 4). Beginning with the Expenditure Plan for FY 2020-21, the PEEF office developed a formal tracking system for capturing administrative costs from direct student support in all PEEF programs budgets. Prior to FY 2019-20, the District was not required to track administrative costs separately from direct student support. However, in March 2019 the Board of Education recommended that PEEF provide an accounting of administrative cost and direct student support. The Board also recommended that PEEF should set a goal that at least 90% of SLAM and OGU allocations in aggregate be provided for direct services. The District will investigate options for lowering administrative costs on PEEF and will seek to implement them in either FY 21-22 (if possible) or FY 22-23.

District Response, Outcome Number 2 — Allowable Activities and Costs

The District is compliant with Outcome Number 2 (on page 5). The District is pleased that PEEF funds are being used in accordance with Board approved spending plans and will work towards more specificity in future spending plans.

District Response, Outcome Number 3 — Budget amounts

The District is compliant with Outcome Number 3 (on page 5). The District works to expend PEEF funds in accordance with Board-approved spending plans. The Chief Financial Officer and PEEF Office provide regular financial updates to the Board of Education at their monthly Budget Business Service subcommittee meetings. These updates include quarterly revenue estimates and any changes to the expenditure plan budget that occurred during the school year since the board approved the plan. The District will develop a report that clearly documents budget changes presented to the Board over the course of the fiscal year.

District Response, Outcome Number 4 — Complete and Accurate Accounting Records

The District is compliant with Outcome Number 4 (on page 7). The District is pleased that the Budget and Business Services Department is keeping accurate and complete accounting records of PEEF funds.

District Response, Outcome Number 5 — SLAM and OGU Allocation

The District is compliant with Outcome Number 5 (on page 7). The District strives to make sure PEEF funds are being appropriately distributed among SLAM and OGU programs.

District Response, Outcome Number 6 — Charter School Allocation

The District is compliant with Outcome Number 6 (on page 7). The District is pleased that the auditors concluded that PEEF funds are being appropriately disbursed to SFUSD approved charter schools.

District Response, Outcome Number 7 — Charter School Oversight

The District is compliant with Outcome Number 7 (on page 7). The District is pleased that the auditors concluded the PEEF staff retained all appropriate documentation as evidence of the expenditures by SFUSD approved charter schools.

San Francisco Unified School District
Public Education Enrichment Fund Compliance Audit
Balance Sheet
June 30, 2020

Assets	
Accounts receivable	\$ 15,615,000
Liabilities and Fund Equity	
Liabilities	
Overdraft cash	\$ 1,606,807
Accounts payable	<u>3,166,927</u>
Total liabilities	<u>4,773,734</u>
Fund Balance	
Restricted for PEEF SLAM expenses	10,775,030
Restricted for PEEF OGU expenses	<u>66,236</u>
Total fund balance	<u>10,841,266</u>
Total Liabilities and Fund Equity	<u><u>\$ 15,615,000</u></u>

San Francisco Unified School District
Public Education Enrichment Fund Compliance Audit
Statement of Revenues, Expenses and Changes in Fund Balance
June 30, 2020

Revenues and Other Sources	
Property tax	<u>\$ 92,422,668</u>
Expenditures	
Sports - Physical Education	7,220,945
Sports - Athletics	4,135,278
Libraries	12,873,762
Arts & Music	17,708,095
Other general uses	<u>49,025,225</u>
Total expenditures	<u>90,963,305</u>
Net Change in Fund Balance	1,459,363
Fund Balance, Beginning of Year	<u>9,381,903</u>
Fund Balance, End of Year	<u><u>\$ 10,841,266</u></u>