



To the Governing Board
Santa Barbara Unified School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Barbara Unified School District for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our meeting on August 7, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Santa Barbara Unified School District are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the government-wide financial statements was:

Management's estimate of the OPEB liability was based on the work performed by an actuary. We evaluated the key factors and assumptions used by the specialist to develop the OPEB liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected misstatements of the financial statements. However, the following represents the uncorrected misstatement of the financial statements identified during the course of the audit:

General Fund

Account receivable	\$143,380	
Lottery revenue		\$143,380

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 16, 2013.

Management Consultations with Other Independent Accountant

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention. The attached schedule summarizes audit findings communicated to management during the course of the audit.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Governing Board and management of Santa Barbara Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

VADINERX TIZNE, Day + Co. LLP

Rancho Cucamonga, California
December 16, 2013

Current Year Observations and Recommendations

INTERNAL CONTROLS

Payroll – Timecards

Observation

Based on testing performed, the sites are not required to forward individual timecards to the District. Currently, the sites collect all of the timecards, but several sites only forward the District a summary prepared from the timecards. Since the summary is prepared by the sites and timecards are not forwarded, the payroll department is unable to verify the accuracy of the information entered on the summary. For example, errors could occur in the number of hours entered on the summary and the payroll department would be unable to identify it.

Recommendation

The District should consider having the site forward the individual timecards along with the summary. This will allow the District to verify the hours worked and make sure that all hours reported are complete and accurate.

Payroll – Hourly Site Summary

Observation

Per inquiry, the payroll department makes changes to the hourly pay rates based on pay rate written on timecards or the summary of timecards prepared at the site level. We noted one employee was paid from the hourly rate indicated on the timecard instead of the higher hourly rate indicated on their "Personnel Action Form".

Recommendation

Changes to individual pay rates should only be made after the appropriate documentation is received. This usually occurs after the change has gone through the normal District approval process and authorization is provided. This helps decrease the chances of unauthorized changes in pay rates and errors in the amount paid to employees.

District Clearing Account

Observation

The District does not assign and distribute receipt books to the sites that collect cash. In addition, copies of site receipts are not forwarded along with "Site Deposit Transfer Slips" and monies sent to the District for deposit except for the deposits forwarded by the child development department. Although the "Site Deposit Transfer Slip" indicates the amount of deposit, the District should reconcile site receipts to the monies forwarded to ensure monies are intact. Finally, the District does not maintain a log that would allow them to monitor the sequential numbering of receipts from each site. This also would allow the District to ensure the completeness of monies sent.

Recommendation

The District should consider strengthen controls over the completeness of site receipts by issuing triplicate, pre-numbered receipt books to all sites and departments where cash and other monies are collected. The District could then monitor the sequence of receipts forwarded from the sites and department to ensure there are no gaps in the receipts forwarded and no gaps between the last receipt in the previous deposit sent and the first receipt in the current deposit received. This may be done by using a log for each site and department that indicates the date monies were received, the receipt numbers included in deposit, and the amount of deposit.

ASSOCIATED STUDENT BODY

Dos Pueblos High School

Observations

During our audit of the ASB's internal controls, we noted the following issues:

1. Perpetual inventory is not maintained for items sold at the student store.
2. Currently, the site does not track the items sold from the student store. In addition, a daily sales recap is not prepared. As a result, a reconciliation between the items sold and cash collected is also not prepared.
3. Although the site uses the Blue Bear track system to receipt monies collected, we noted instances where receipts were not issued in sequential order.
4. Approval of disbursements and fundraisers are not noted in the minutes of the Student Council meetings. From the limited amount of minutes provided during the audit, no approval was noted within for all 12 disbursements or 3 fundraisers tested.
5. Revenue potentials are not completed for fundraising events.

Recommendations

1. In order to prevent the loss or the misappropriation of assets, the site should perform a physical inventory count at least once a year. The site should also reconcile the physical inventory count to a perpetual inventory. A perpetual inventory tracks beginning inventory, purchases and other additions to inventory and total number of items sold based on daily sales and receipts. The site should also establish a procedure to investigate any significant differences noted between the actual physical inventory counts and the perpetual inventory count. This information is necessary to analyze sales activity and applicable profit or loss and to determine if merchandise has been lost or stolen.
2. The student store can issue physical receipts for items purchased or generate a tally sheet of all items sold at the student store to tally total sales of items as they are being sold. A daily sales recap should then be prepared where the items sold are reconciled to the cash collected to determine if monies are deposited intact.
3. The District should investigate and determine why receipts were not issued in sequential order to help ensure all monies collected are deposited intact and in a timely manner.
4. Student Council minutes should be maintained and filed for future review. In addition, minutes should include details of the meeting including budgeting procedures, fund raising discussions, and approval of expenditures.
5. Revenue potentials must be completed for each fundraiser. This includes the expected profit and loss section associated with the fundraisers. This will help identify any significant differences between anticipated profits and actual profits and losses and possible potential misappropriation of ASB funds. Analysis of actual profit and loss also allows the site to continue those fundraisers which generate profit and modify or eliminate those which generate losses.