

San Jose Unified School District

Final Measure F Bond Fund Performance Audit Report
For the Fiscal Year Ended June 30, 2009

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Board of Education
San Jose Unified School District
855 Lenzen Avenue
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Subject: Measure F Bond Fund Performance Audit Report

Dear Members of the Board:

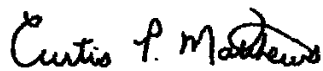
This report summarizes the results of our engagement to provide Measure F performance audit services for the fiscal year ended June 30, 2009. This performance audit evaluated the processes and controls needed to achieve Construction Program cost, scope, and schedule goals, and to provide commentary on cost factors which affect the facilities improvements on the campuses of San Jose Unified School District (the District). Amounts listed in this report are from the District books and records. Vavrinek, Trine, Day & Co., LLP performs the District Financial Statement Audit. Good practices and improvement opportunities, as identified at the time of report issuance, are identified in this report.

This engagement was performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA) as outlined in our engagement letter. The scope of this engagement is outlined in the body of our report. This report was developed based on information from our interviews with District employees and the review of new construction and school reconstruction program documentation. We also tested expenditures during the period July 1, 2008, through June 30, 2009, for compliance with funding source objectives.

This report is intended solely for the use of the School Board of Trustees, District Administration, and Citizens' Bond Oversight Committee (CBOC). Moss Adams LLP (Moss Adams) does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

We appreciate the opportunity to continue assisting the San Jose Unified School District and would like to express our thanks to you and all members of the District staff for their cooperation throughout our review. If you have any questions or comments regarding this report, please feel free to contact me at (415) 677-8347.

Very truly yours,



Curtis Matthews, Partner
for Moss Adams LLP

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EXECUTIVE SUMMARY

The San Jose Unified School District (District) has implemented controls covering the use of school Construction Bond proceeds that comply with Measure F and Proposition 39 requirements. Expenditure testing verified District compliance with approved Measure F Bond Program purposes, as required by Proposition 39. The District has implemented plans for the prudent use of Bond Program funds and has considered students' needs for a safe learning environment. The District's use of Bond Program proceeds has considered classroom space requirements, technology needs, and equitable use of funds. The scope of the Bond Program has been defined and communicated to District stakeholders through the Measure F Facilities Construction Implementation Plan (Implementation Plan).

The District is in process of completing a lease-leaseback agreement with Darling Investors, LLC (Darling Investors). The contract with Darling Investors allows the District the right to audit the costs associated with this project. The District has exercised its right to audit. An audit performed during the fiscal year identified unsupported costs and potential overcharges to the District. The District is following up with the General Contractor to address unsupported and questioned cost charges.

The most recent revision to the Implementation Plan reflects estimated program costs of \$539,847,871 to construct Measure F projects. Total available construction funds were \$470,573,390 leaving a shortfall of \$69,274,481 to complete all projects identified in the Implementation Plan. The shortfall is documented in the Implementation Plan dated April 6, 2009, which was approved by the Board of Education (Board) and communicated to the CBOC. The District continues to explore additional or alternative funding sources. The revision was performed to reflect higher than anticipated construction costs. The Implementation Plan was modified, changes to the Implementation Plan were communicated in the April 6, 2009, revision. Modifications to the Implementation Plan were approved by the Board. The District has determined and reported those projects that may not be completed due to the shortfall.

As Measure F funds are utilized, an increasing number of projects were in process of close-out. Close-out of projects was not occurring timely and Division of State Architect (DSA) certification has been untimely as well. When key close-out items are not completed timely, the District may end up performing work that the Contractor should have performed, complete fulfillment of facility requirements may not be timely, and accountability for completion of punch list items may be disputed.

The District has implemented 25 out of 27 (93%) prior year performance audit recommendations. These open recommendations should be implemented on a timely basis, as they address the need for effective procurement methods as well as the need for timely and complete project close-out controls.

OBJECTIVE, SCOPE AND APPROACH

This performance audit evaluated the San Jose Unified School District Bond Program compliance, program performance controls, and efficiency. We analyzed the Construction Program controls structure. We also tested expenditures during the period July 1, 2008, through June 30, 2009, for compliance with Measure F funding source requirements and purposes. All sampled expenditures were tested for contractual compliance. Expenditures listed in this report are from District books and records. We visited the Anne Darling Elementary School construction site on two occasions. Fieldwork for the Performance Audit was completed on October 15, 2009.

Our Performance Audit team assessed the performance of the San Jose Unified School District Construction Program level controls, and validated Construction Program expenditures against funding source requirements and contract terms and conditions. The results of our assessment are based upon our experience with other construction programs, knowledge of the District, staff interviews, and review of Construction Program documentation.

To complete this Measure F Performance Audit, our project team reviewed District background materials, reviewed specific project and program level documentation, tested District control practices, and tested program expenditures. We conducted over ten interviews with District, school, and project management staff. In order to evaluate the overall program management methodology, we reviewed selected construction projects to perform firsthand observation of the systems, controls, and processes that were undertaken by field management and the interaction between the parties involved in the program.

A sampling of other documents reviewed includes:

- Measure F Bond language and Ballot materials
- Implementation Plan Revision dated August 20, 2009
- Construction program procedures
- A sample of procurement bid and award documentation
- A sample of executed contracts
- A sample of payment applications and invoices
- Relevant financial records, general ledger, and transaction support
- Student headcount planning documents

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The scope of this performance audit included procedures to verify the use of Measure F funds for approved funding source purposes. Expenditures were selected and tested for funding source and contract compliance. While this was a performance audit performed under AICPA consulting standards and did not constitute a District financial audit performed under AICPA assurance standards, the procedures were applied to help verify that the school Construction Program performance was effective and consistent with funding source purposes.

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BACKGROUND INFORMATION

In 2002, voters approved Bond Measure F for \$429 million to provide improvements to the District's facilities. The Measure F School Construction Bond funds were to be used for school repairs, rehabilitation, and health and safety needs at the District's local schools over a period of seven to eight years. The Measure F Construction Bond Program (Bond Program) is in its seventh year of implementation. Fiscal year ended June 30, 2009, Bond Program accounting records showed Bond Program expenditures of \$47,393,517 and total use of Bond Funds of \$48,918,929. The difference between expenditures and use of Bond Funds is \$1,525,412. The \$1,525,412 is transferred out of Measure F into the Deferred Maintenance fund to obtain matching funds from the State.

Bond Programs of this size and complexity require appropriate financial processes and operational controls to ensure program compliance, effectiveness, cost, schedule, quality and efficiency goals are achieved. Proposition 39 requires an annual Bond Program performance audit. Moss Adams was engaged to assist the District in developing Construction Program Management processes and to perform the required annual performance audit.

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PREVIOUS AUDIT RECOMMENDATIONS FOLLOW-UP

We interviewed District and Bond Program personnel to determine the status of improvement opportunities identified in previous audits. Through inquiry and review of documents, we confirmed that 25 of 27 original recommendations have been resolved, and the solution for 2 recommendations is being implemented or closed. Management responses and the current status of these items are summarized in Appendix A.

Source	Issues Identified	Implemented Items	Solutions Being Implemented
Moss Adams 2008	4	2	2
Moss Adams 2007	4	4	0
Moss Adams 2006	4	4	0
Moss Adams 2005	3	3	0
Moss Adams 2004	4	4	0
Moss Adams 2003	<u>8</u>	<u>8</u>	<u>0</u>
Total	<u>27</u>	<u>25</u>	<u>2</u>

KEY OBSERVATIONS AND GOOD PRACTICES

Key performance audit observations and good practices are summarized in this report section. The identified improvement opportunities have been ranked as high, medium, or low priority based upon our analysis and experience with respect to probability and potential impact to Construction Program cost, schedule, and scope. Improvement opportunity prioritization is based on the need to address those items that most strongly align with District Construction Program success drivers.

1. Compliance with Ballot, Bond, State and other Funding Source Requirements

We evaluated Bond Program financial records and expenditure cost support to verify that funds were used for approved Bond Program purposes as set forth in the Ballot Measure and Bond Documents. In accomplishing this work, we reviewed Bond Program accounting records, contracts, purchase orders, invoices, payment records, and other documentation of current expenditures as needed to determine if funds were being used for approved Bond Program purposes.

We performed a walkthrough of the Bond expenditure cycle and sampled supporting documentation to validate internal controls. Our testing sample selection was determined using Audit Command Language (ACL). We selected 60 expenditures, using random dollar unit sampling. The population sampled consisted of all expenditures from July 1, 2008, through June 30, 2009.

Expenditures were agreed to vendor submitted invoices and supporting documentation. The types of reimbursements claimed were compared to approved contract/agreement terms and Proposition 39 requirements.

Good Practices

- The District required expenditure approvals specific to the Bond Program and had developed financial controls to manage the expenditure of Bond Funds. Controls were in place to help ensure that amounts billed represent actual work performed and are consistent with contractual requirements. Controls included Construction Policies and Procedures which included authorized approval limits.
- The CBOC in place during fiscal year-end 2008 represented a cross-section of the community and stakeholders. Their responsibilities included review of Bond construction status and expenditures.
- The Measure F Implementation Plan August 2009 Escalation Revision Program addressed current curriculum needs and objectives as stated in the Bond materials.
- Measure F construction projects were completed in a manner that adheres to the construction schedule and were in line with the Implementation Plan.

2. Facilities Programming and Master Plan Approach

This analysis covered approvals required before performance of Bond Program activities and expenditures. It covered the application of a Bond Program delivery model that requires scope definition, documented actions, and approvals before the design, construction, and close-out project phases.

We evaluated the processes used by the District to identify facility needs, programming, and coordination to completely and equitably address site requirements. Coordination with maintenance, user groups, and key stakeholders was considered in this analysis, along with the inclusion of appropriate personnel. We reviewed the definition of deliverables for each project phase and requirements for approvals. We reviewed the School Construction Procedures Manual to determine that approval levels are documented. This analysis included the review of tools and support processes for each project phase, comparing them to other projects and good industry practices. We evaluated Bond activities for consideration of student needs and future receipt of maintenance funds in assessing the equitable use of Bond Program Funds.

Good Practices

- Projected enrollment estimates were completed to evaluate the effect of population distribution on classroom requirements, parking, departmental relocation, and master planning.
- The District has set aside the maximum amount of deferred funds in order to receive the greatest potential amount of State-matched maintenance funds which are provided when fiscally available.
- The District uses horizontal (cross-school) and vertical (within-a-school) delivery methods, depending on the perceived efficiencies that may be gained.
- Projects are prioritized according to a standardized District-wide system.
- Adherence to standards and procedures creates equity between schools and prevents change by managing user expectations.

3. Communication and Fulfillment of Site Expectations

We reviewed the various tools used by the District to communicate Bond Program plans to stakeholders, including communication with students, faculty, and the surrounding community. We interviewed principals at Trace Elementary School, Los Alamitos Elementary School, Willow Glen Middle School, and Gunderson High School. We also interviewed the Kitchell Project Manager, the Director of Operations and Purchasing, the District Maintenance Supervisor, and three Construction Administrators to better understand the specific types of information flow that are occurring on campuses and in the surrounding communities. This analysis included an assessment of whether an ongoing level of communication is maintained regarding the projects and program.

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The methods used to communicate renovation plans for each site and new construction plans were reviewed and compared to good practices. This included the review of published plans and evidence of presentations to the CBOC, faculty, students, the community, District staff, Program Management Personnel and Construction Manager's personnel. Responsibility and accountability for site communication of project performance and coordination of site activities were reviewed.

Good Practices

- The Executive Committee typically met on a weekly basis to address cost, schedule, and quality issues for each project.
- Public meetings of the CBOC were held to update the community on the status of projects. The meeting minutes were posted on the CBOC website.
- The CBOC conducted formal site visits to school construction projects during the year.
- A process to communicate the status of projects and to walkthrough sites with Principals had been developed. Walkthroughs were performed during major construction phases to obtain input from Principals and to provide them with a status update on the construction plan for the following week.
- A Close-Out Committee met weekly to discuss and monitor project close-out status.
- Stakeholder needs were identified in the construction design phase. The District worked with stakeholders to design classrooms and facilities to meet the stakeholders' needs within the framework of project budget.

4. Cost, Schedule, and Budgetary Management and Reporting

We evaluated the actions taken by the District to apply policies and procedures that accomplish Bond Program schedule, quality, scope management, and performance efficiency goals. We reviewed Bond Program reporting as needed to provide current, accurate, and complete cost, schedule, and budgetary information to Program stakeholders. Based on interviews and information gathered during the course of the project audit, analysis was conducted to determine whether there is adequate executive oversight and involvement in each of the audited projects. This analysis also reviewed the cost, schedule and budgetary reporting methodologies.

Good Practices

- The District had defined program performance reporting requirements that included a summary of the approved budget, any changes, expenditures, commitments, forecasts, trends, and variances.
- The District used cash flow planning to identify the expected spending requirements and to match the issuance and use of Bond proceeds with spending requirements.

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- Kitchell prepared a detailed project-by-project analysis of cost, schedule, and budget which highlighted specific issues on each project. This report was provided to the CBOC each month.

5. Change Management and Control

We evaluated District policies, procedures, and practices to manage change orders and related costs. Procurement and project controls were evaluated for evidence of change management to help prevent excessive expenditures. We selected a sample of ten change orders for compliance with policies and procedures.

Good Practices

- The District had defined control processes to identify change order causes and to evaluate change order costs.
- The Executive Committee reviewed potential change orders as the committee reviewed each project. Potential change orders were reviewed by the Executive Committee to determine if the change was outside the original scope and to monitor each project's budget.
- Change orders were documented in contract files. Project cost accounting included the original contract amount, change order amount, necessary signatures, Board approvals, and the applicable cost codes.
- A change order approval process had been developed. The Construction Procedures Manual required that changes be reviewed against nine specific criteria prior to approval. The Construction Office implemented a checklist to ensure that all criteria were met prior to approval of the change.
- The requirement that changes to the Implementation Plan must be documented and communicated at all levels of the organization had been implemented.

6. Program Staffing

Through interviews of key operational personnel, review of program workflows, analysis of relevant expenditures, and observation of position and work requirements, we assessed the assumptions and the basis for Bond Program staffing plans. Bond Program Management needs were compared to the adequacy of staffing requirements. Our experience with staffing at other academic capital programs as well as our assessment of factors unique to the District formed the basis of this analysis.

Good Practice

- The District added the responsibilities of District maintenance to the Director of School Construction in order to create a smooth transition from construction to maintenance and ensure fluid communication between both departments.

Improvement Opportunity – Moderate Priority

- The Facilities transition plan lacked necessary details to ensure a smooth transition. The current plan bullets items to consider but does not elaborate regarding the levels of staffing that would be required, notification timelines of potential job losses and how the transition may be performed.

Recommendation: The District should create a detailed transition plan that documents actions and milestones for the wind down of the school construction program. The transition plan should include what the staffing model will look like at the conclusion of the transition, guidelines for notification of potential job loss, timelines and specific information on how the transition plan may be accomplished.

District Response

- District agrees and will continue efforts in detailing and documenting the transition planning.

7. Procurement Controls and Contract Administration

We reviewed the implementation of District procurement controls for consistency, adherence to District purchasing policies and application of competitive and fair subcontracting practices. Procurement controls were evaluated for implementation of measures to prevent excessive expenditures. This performance audit area included coverage of contract approvals and application of terms and conditions that helped protect the District from exposures related to project cost, schedule, and scope. We selected a sample of 60 invoices to evaluate the level of compliance with Construction Policies and Procedures in the procurement process.

Good Practice

- Management developed standards for contract approval within the Construction Manual detailing who was responsible for approving contracts depending on the expenditure level.
- Management outsourced to a third party the logistical services of tracking, imaging, and distributing Apple computers for technology upgrades related to Measure F. The District also outsourced the performance of a full physical inventory to a third party. The reconciliation of Measure F financial records to this inventory count was in progress.

8. Lease – Leaseback Controls

The District entered into a Lease/Leaseback with Darling Investors for the purpose of development and construction of classroom facilities. The contract with Darling Investors is a Guaranteed Maximum Price contract. The Amended Guaranteed Maximum Price is \$15,589,222. The contract states that “The Developer shall document, in specific detail, all actual labor expended, materials, supplies, and equipment used, and administration costs. That documentation, plus the Developer markup proportionate to the percentage complete shall be provided to the District by the first of each month for the previous month’s work. This documentation must be acceptable to the District.” The contract with Darling Investors also includes a clause allowing the District to audit contract charges.

Good Practice

- The District exercised its right to audit within the lease agreement. The audit reviewed the cost-plus portions of the contract to determine if Contractor’s costs could be substantiated and that these costs were billed to the District correctly. The audit identified excessive charges for General Contractor salaries, bonuses, duplicate payments and insurance bonds of \$109,770 that were in process of resolution with the General Contractor’s final payment application. Issues identified may have resulted in cost savings that were difficult to quantify due to the increased oversight of the General Contractor’s billings.

9. Contractor Liens, Claims, and Other Close-Out Issues

We evaluated the District’s policies, procedures, and practices to obtain lien releases, prevent claims and address potential close-out issues. This review included analysis of checklists, procedures, retention policies, and contract terms and conditions. The Performance Audit Team looked for implementation of procedures to identify the parameters for Contractor performance and compared the District’s close-out procedures to good practices. This included review of criteria for all relevant parties to determine whether a project was complete. The Team also evaluated the processes to verify there were controls to provide for release of contractor liens and other claims prior to final payment.

District control processes to review and approve Contractor cost charges were analyzed. Interviews were conducted to help ensure accurate understanding of events and circumstances surrounding contract compliance practices. Transaction flow and cost control processes were covered during these interviews. District practices were documented, and testing was conducted in conjunction with interviews to evaluate the events and circumstances surrounding the validation of contract billings compliance practices.

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Good Practice

- Management has worked to incrementally improve the close-out process as Measure F matures. A Close-Out Committee met weekly to discuss projects in the close-out phase, and the Director of School Construction designated an administrator to manage the close-out activities of the department. A close-out log was maintained to track the status of projects in close-out.
- The Close-Out Committee developed a project status called “Pre-Closed” in which projects are financially reconciled by Fiscal Accounting for projects where the construction has been completed but the DSA has not certified the project.

Improvement Opportunity – High Priority

- Buildings were consistently occupied by students prior to State certification. One school included a modernization project of a building that had been closed since March without State certification and had outstanding punch list close-out items. Activeboards and projectors received in October were yet to be installed, and a classroom floor required refinishing due to the use of incorrect sealant. Incomplete project work can result in: a) delays in receiving needed building functionality, b) issues with completing work in occupied buildings, c) questions about when and by whom an issue was caused and d) potential extra internal costs associated with correcting issues that contractors failed to correct. Based on our experience, San Jose Unified School District is not alone in not closing all punch list items prior to building occupancy. However, this is not best practice. Given that Measure F School Construction Bond Program is winding down, it is more important than ever to timely complete project punch list items.

Recommendation: Complete project work on schedule and take all steps possible to ensure punch list items are cleared prior to building occupancy. Minimize the amount of required follow-up by contractors by consistently reviewing construction in progress with stakeholders even if school is not in session. In this specific instance, work was completed during the summer and teachers and school administration did not review the work.

District Response:

- District recognizes that there is room for improvement and will continue to strive for excellence. However, it is not uncommon, and in fact common in public school construction, for buildings or rooms to be occupied prior to 100% completion of punch list and close-out items. It is also common that buildings and/or rooms are occupied prior to DSA Certification and arguably, impracticable to receive Certification prior to occupancy of a Public School Construction project.

Improvement Opportunities – Medium Priority

- The Construction Manual states that all contractor requests for payment require the use of a Payment Application signed by the Inspector of Record and the Construction Manager. Of the 60 Measure F expenditures tested, 8 had not been signed by the Inspector of Record, 1 of which had also not been signed by the Construction Manager. We were informed that the Inspector was unavailable to sign, in a timely fashion, for the majority of the instances identified. In some instances, the inspection was deemed unnecessary by the District due to the nature of the project.

Recommendation: Management should ensure that Payment Applications have the required and appropriate signatures as documented in the Construction Manual. As the Measure F construction project winds down, it is reasonable that some of the project scope would be for work that may not reasonably require an Inspector of Record signature, such as landscaping for which there is no structural implication. Management should review and update the Construction Manual to specifically identify and clarify scenarios for which the Inspector of Record signature is not required. This can help ensure proper payment for work completed.

District Response

- District recognizes the importance of the Construction Manual and its controls and further, that this matter is best addressed through Construction Manual updates and revisions accounting for best practices that may change over time based on needs and programmatic changes, i.e., as we wind down, our project's quantities and/or scopes will be minimized and Inspectors, CM's and Architect's services may not be necessary as Staff may facilitate these tasks as appropriate. Procedures/controls for such delivery model will be developed and implemented.

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APPENDIX A – AUDIT RESOLUTION LOG

We interviewed District and Bond Program personnel and reviewed relevant documentation to determine the status of improvement opportunities identified in previous audits. Through inquiry and review of documents, we confirmed that 23 of the original 27 issues have been resolved, and solutions for 4 issues were being implemented.

No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
1	Contract Close-Out (2008)	Medium	Timely Project Close-Out Reconciliation	Management should ensure that a reconciliation review is completed prior to project close-out to help ensure that budgeted expenditures and actual expenditures reconcile appropriately.	The District routinely analyzes and reviews project expenditures. In 2007-08 24 projects close-out had been conducted. Accounting personnel will continue working closely with project managers to reconcile budgets and close out projects on a timely basis. The District has an established close-out procedure which includes school principal sign-off document. The document will track the scope/item until it is completed and then acknowledged as complete by school principal and District staff.	Director of School Construction and Maintenance	Solutions Being Implemented	

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
2	Contract Close-Out (2008)	Medium	Project Close-Out	Principals sign off on the design phase of construction projects and they should be required to sign off at project close-out. This sign-off will provide a formal close to the project and all parties will understand that the project is closed and that future work on the project should be requested through facilities.	Staff agrees with the recommendation of Moss Adams and will implement a "Principal Sign-Off" into the project completion process.	Director of School Construction	Closed	Jun-09
3	Contract Close-Out (2008)	Medium	Project status notes had not been updated or resolved in a timely manner.	Ensure follow-up is conducted and resolution is timely achieved for all outstanding project close-out matters. Use project notes as a record of when requests were sent to unresponsive parties and to help facilitate timely project close-out.	The District routinely analyzes and reviews project expenditures. In 2007-08 24 projects close-out had been conducted. Accounting personnel will continue working closely with project managers to reconcile budget and close out the project on a timely basis. The District has an established close-out procedure which includes school principal sign-off document. The document will track the scope/item until it is completed and then acknowledged as complete by school principal and District staff.	Director of School Construction and Maintenance	Solutions Being Implemented	

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
4	Procurement Controls and Contract Administration (2008)	Medium	Non-routine purchase policy	Purchases for items not typically procured annually by the District should follow best practices in the procurement cycle to minimize risk.	The District routinely reviews its procurement procedures in place for construction contracts. The auditor's recommendation has been implemented as part of the District's procurement process.	Director of Operations, Purchasing, and Contract Management	Closed	Jun-09
5	Facilities Programming (2007)	High	Project Scope	Transfer funds from alternative funding sources to Measure F to pay for the ineligible projects. In addition, develop a process to ensure that projects are in compliance with Bond language and ballot materials.	Staff has reviewed the ineligible expenditures and concurs with Moss Adams' findings. The ineligible expenditures have been transferred to other appropriate funding sources. Staff has directed the Program Manager to compare and validate the scope items in current and future Measure F projects with the ballot language to ensure future compliance. Staff will share the results of the exercise with the CBOC and the Performance Auditor. The Program Manager will prepare a report and review the outcome with the Director of School Construction, Directors of Purchasing and Contract Management, and the District Director of Internal Audit.	Director of School Construction	Closed	Oct-07

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
6	Cost, Schedule, and Budget (2007)	Medium	Salary Allocation	Adjusting journal entries are processed under dual control in the Finance Department. The construction group should require two sign-offs on this transaction to help ensure its accuracy. In addition, the calculation should be provided to the Construction Director for his review and approval before processing.	Staff recommends inserting spreadsheet functions into the source document to disallow errant or miskeyed timesheet information. Similar to controls of master change order forms, an error message would be returned when hours exceeding a set number are inputted. Staff agrees with Moss Adams' suggestion for the Director's review prior to posting the expenditures in Measure F.	School Construction Accounting Administrator	Closed	Jun-08
7	Procurement Controls (2007)	Low	Procurement Documentation	Ensure that all file documentation is complete.	No response required.	Director of School Construction	Closed	Jul-08

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
8	Lease and Leaseback Controls (2007)	Low	Lease Payment Schedule	Request a copy of the lease payment schedule showing the interest rate and the amount of principal and interest per payment. If documentation of the interest rate, principal, and interest per payment cannot be calculated, the District should attempt to calculate the rate so they can make an informed decision about whether to buy out the lease agreement.	The District is not locked into any particular lease financing for the long-term lease of the facilities. Upon completion of construction, the District has the option to buy out the lease, procure other financing, or utilize the financing available under the agreement. The District's intention is to buy out the lease as early as possible. Staff believes analysis of the interest rate offered should be evaluated as part of the decision making process at that time.	Director of School Construction	Closed	Jun-08
9	Communication (2006)	High	Safety	Additional safety information that directly affects the community needs to be available at all of the construction sites on all school campuses, such as noise and hazard advisory and clearly visible emergency contact information (name and telephone number).	Staff takes no exception to this recommended communication improvement and will work to develop standardized content for site signage.	Director of School Construction	Closed	Sep-06

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
10	Change Order Management and Control (2006)	High	Change Order Documentation	The change order checklist was implemented as of August 2006 after the end of the period covered by this audit. Compliance with this new policy should be tested during the 2006-07 audit.	We have reviewed a sampling of change orders in various projects and found insufficient change order documentation to identify the reasons for the changes, the basis for determining cost summaries, or the thorough review and approval of each change order. Additionally, the change order checklist has not been consistently used.	Director of School Construction	Closed	Jun-07
11	Communication (2006)	Medium	Construction Impacts	Individual campus websites should include construction status and impact information or provide a link to the Bond program section of the District/CBOC website in order to communicate better with Program stakeholders.	The website for the CBOC is currently being studied for a significant reorganization, retrofit, and narrative update reflecting the current status of the projects and description of future scopes/phase in the coming months. Links from the school site's webpage to the main Measure F CBOC's webpage is an improvement that will be made District-wide.	Director of School Construction	Closed	Nov-08
12	Close-Out (2006)	Medium	Reconciliation	The District should expedite the close-out process by starting the process earlier, during the construction phase, such that data gathering and reconciliation is conducted on an ongoing basis.	The Construction Office has established a committee headed by Director of School Construction to address close-out and track progress in the close-out process. Improvements in this area should be tested during the 2006-2007 audit.	Director of School Construction	Closed	Sep-06

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
13	Project Plans and Use of Funds in Compliance with Bond Program Objectives (2005)	High	Funding Source Identification	The District should ensure that all Plan project funding sources are specifically identified within the Plan. The Plan serves as the overall means by which construction program projects are identified, budgeted, scheduled, and performed. Complete and accurate comparison of Measure F and other funding source spending against projects will be facilitated by identification of funding sources for each project work scope.	A matrix has been prepared by Kitchell and is included in the Implementation Plan in the back of the Cash Flow Section. It shows a breakdown of each project, with previous and revised budget, and specific funding by measure, bond, and deferred maintenance plan.	Kitchell Project Manager	Closed	Oct-06
14	Change Order Management and Control (2005)	High	Change Order Approval Checklist	The Manual requires that changes be reviewed for compliance with nine specific criteria prior to approval. The District has not implemented a checklist to document that all criteria have been met prior to approval of the change.	District Management has designed and recently implemented a checklist to document that change orders meet the specific criteria required by the Manual. The checklist has been implemented and is in use.	Director of School Construction	Closed	Oct-06

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
15	CBOC Requirements Compliance (2005)	High	Communication	While CBOC agendas, minutes, reports and program information are posted on the CBOC website, this website could be enhanced by providing a summary of key information that the CBOC may communicate to help local citizens better understand Construction Bond Program activities.	Discussions are ongoing regarding improvements to the website and possible hire of a webmaster. The CBOC is working on the structure of reporting and website.	Director of School Construction	Closed	Nov-08

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
16	Deferred Maintenance (2004)	High	Funding	The District's plan to address deferred maintenance needs should identify both facilities maintenance needs as well as funding available to meet those needs. The District should continue to increase public awareness of school facility needs, and actions taken and needed to obtain resources necessary to maintain the public investment in school facilities.	The District has drafted its revised deferred maintenance plan for 2005-09. The plan was approved as part of the Implementation Plan, and is continually updated.	Director of School Construction	Closed	Oct-06

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No.	Category	Priority Rating	Issue	Recommendation	Management Response	Owner	Status of Resolution	Planned Resolution Date
17	Contractor Cost Controls (2004)	High	Payment Application Review and Approval	Paper flow streamlining of the payment application processes will help ensure efficient processing and timely contractor payments. The District should provide training to help contractors submit payment applications with supporting documentation needed for approval and timely payments. Expanded District use of technology should be explored to more efficiently document, track and process contractor payment applications.	The District has begun the process of streamlining the payment application process. The process began with making the purchase orders and contracts available to all online from central servers. Any changes made to these documents will also be scanned and available online. The next step is to automate the payment process through workflow management. The District has begun a migration to a new accounting system (MUNIS). Full implementation of the accounting processes is expected.	Chief Business Officer	Closed	Sep-05
18	Procurement and Contracting Controls (2004)	High	Project Commencement	We found architectural and civil engineering projects that were started before Board approval. The District's procedures manual requires Board approval before the commencement of each project.	The District has taken action to obtain appropriate procurement approval prior to work performance. Legal counsel was consulted to amend contract language.	Director of School Construction	Closed	Sep-05

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19	Procurement and Contracting Controls (2004)	Medium	Contract Protections	Right-to-audit provisions could be strengthened in District contracts. This would help the District improve change order cost validation capabilities.	The District has obtained terms for its right-to-audit clause and will implement those terms as appropriate in new contracts.	Director of School Construction	Closed	Sep-05
20	Program Staffing (2003)	High	Program Staffing	Current Facilities Construction staffing levels are inadequate to properly control construction program cost, schedule and scope. Staffing improvements should start with properly staffing project management and project oversight activities. An appropriate complement of support staff will also be needed to provide clerical, financial, and technical support. Professional service contracting should be considered to address peak staffing level requirements.	The District has a staffing plan that matches Bond Program construction activity levels.	Director of School Construction	Closed	Oct-06

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21	Contractor Cost Controls (2003)	High	Payment Application Review and Approval	Procedures should be properly defined to specify appropriate review and approval of Contractor payment applications to prevent payments that exceed contractual maximums or payments for otherwise unallowable charges.	Procedures to properly define and specify appropriate review and approval of Contractor payment applications to prevent payments that exceed contractual maximums or payments for otherwise unallowable charges have been documented in the Manual under the "Payment Application" section.	Director of School Construction	Closed	Sep-04
22	Change Order Management and Controls (2003)	High	Policies and Procedures	Change order processing policies and procedures should incorporate best practices by providing appropriate approvals and preventing unnecessary changes and excessive change order costs.	Change order processing policies and procedures have been completed to apply good practices in providing appropriate approvals and preventing unnecessary changes and excessive change order cost. These procedures are documented in Manual's "Change Order" section.	Director of School Construction	Closed	Sep-04

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23	Procurement Controls (2003)	Medium	Close-Out Evaluation	District procedures covering the evaluation of professional service contracts should be documented and provide guidance on the assessment of required services, standard professional service contracts, scope definition, supplier qualifications, contract pricing and terms.	The District has documented procedures covering the evaluation of professional service contracts to provide good practice guidance on the assessment of required services, standard professional service contracts, scope definition, supplier qualification, contract pricing and terms.	Director of School Construction	Closed	Sep-04
24	Cost, Schedule, Budgetary Management, and Reporting (2003)	Medium	Redundancy of Data Input	The District general ledger program does not efficiently provide for automated data extraction capability for report generation purposes. Often reports are generated from manual extraction of data. This process requires redundant data input and excessive effort. This redundant data input could lead to data input errors. The District is currently assessing possible ways to better develop automated reports.	The District is now able to extract information from the general ledger into a database program for report generating purposes. Manual data extraction has been reduced to avoid redundant data input and excessive effort as noted in the prior year.	Chief Business Officer	Closed	Sep-04

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25	Cost, Schedule, Budgetary Management, and Reporting (2003)	Medium	Reporting	The District should improve Bond Program reporting controls by routinely providing Board-level reports that identify Bond Program performance against cost, schedule, scope, and safety goals. Specifically, a procedure should be adopted to provide a complete report to Board Members and District Administration. This report should cover all Bond projects and should include a) earned value comparison to anticipated cost schedules and b) safety incidents.	The District improved the Bond Program reporting controls. The District now provides monthly Board-level and CBOC reports that summarize Bond Program performance against costs, schedule, scope, and safety goals.	Director of School Construction	Closed	Sep-04
26	Implementation Plan Approach and Equitable Sharing of Bond Proceeds (2003)	Medium	Implementation Plan Changes	Changes to the Implementation Plan need to be carefully managed.	The District implemented the Board Policy to require Board approval of modification to plans established in the Implementation Plan.	Director of School Construction	Closed	Sep-04
27	Schedule, Quality, Scope Management, and Performance Controls (2003)	Medium	Policies and Procedures	District policies and procedures related to Facilities construction can be improved to properly control program performance.	District policies and procedures are constantly being reviewed, refined, and improved.	Director of School Construction	Closed	Oct-06